MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Basic Financial Statements, Required Supplementary Information and Supplementary Schedules

June 30, 2016

(With Independent Auditors' Report Thereon)

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

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KPMG LLP
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Independent Auditors' Report

Members of the Board of Directors
Massachusetts Department of Transportation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Massachusetts Department of Transportation (MassDOT), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MassDOT's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of entities which represent 97%, 96% and 97% of the total assets, total net position and total revenues of the aggregate discretely presented component units or the Owner Controlled Insurance Program, an Internal Service Fund, which represents 1%, less than 1% and less than 1% of the total assets, total net position and total revenues of the aggregate remaining fund information and less than 1% of total assets, total net position and total revenues of the governmental activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities and funds, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of MassDOT, as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Adoption of New Accounting Pronouncement

As discussed in Note 1(r) to the financial statements, in 2016, MassDOT adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules listed under Required Supplementary Information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MassDOT's basic financial statements. The Other Supplementary Information (OSI) listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The OSI is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the OSI is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016 on our consideration of MassDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MassDOT's internal control over financial reporting and compliance.

KPMG LLP

December 21, 2016

Management of the Massachusetts Department of Transportation (MassDOT) provides this Management's Discussion and Analysis to assist readers of its financial statements to better understand the financial activities of MassDOT for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with MassDOT's basic financial statements, which follow this section.

Overview of the Financial Statements

MassDOT's financial statements present two types of statements each with a different view of MassDOT's finances. This approach focuses on both MassDOT as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about MassDOT as a whole. The fund financial statements focus on the individual parts of MassDOT, reporting MassDOT's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance MassDOT's accountability. Also included in the report is the financial information about activities for which MassDOT acts solely as a trustee or agent for the benefit of those outside of the government. Additional parts of the basic financial statements are the notes to the financial statements, required supplementary information and other supplementary information, which is used to assist readers and investors in reviewing the MassDOT's general fund operations in more detail.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of MassDOT as a whole, with the exception of fiduciary activities, and use accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about MassDOT's financial situation and are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting. All revenues and expenses connected with the fiscal year are reported regardless of the timing of cash flows. The government-wide financial statements include the following two statements:

> **Statement of Net Position** – Presents all of MassDOT's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as "net position". The net position is widely considered a good measure of MassDOT's financial health as increases and decreases in MassDOT's net position serve as a useful indicator of whether MassDOT's financial position is improving or deteriorating. The reader should consider other nonfinancial factors, such as the condition of MassDOT's infrastructure, ways and structures.

> **Statement of Activities** – Presents information showing how MassDOT's net position changed during the most recent fiscal year. Revenues, expenses, and gains/losses are reported for some items that will not result in cash flows until future fiscal periods (i.e., accounts receivable or earned but unused sick and vacation time). This statement also presents a comparison between direct expenses and program revenues for each division of MassDOT.

The government-wide financial statements present information in three columns in order to summarize MassDOT's activities. The types of activities presented are as follows:

Governmental Activities – Most of MassDOT's basic services (which are primarily funded by toll revenues, contract assistance from the Commonwealth and other nonexchange revenues) are reported in this section by operational division, which are as follows: Highway, Registry of Motor Vehicles, Rail and Transit, and Aeronautics as well as shared services represented by the Office of the Secretary.

Business-Type Activities – The Massachusetts Bay Transportation Authority's (MBTA), a component unit, activities are reported here since a portion of their costs are recovered through user fees and charges to external users of goods and services.

Discretely Presented Component Units – Separate legal entities for which MassDOT has financial accountability are included in this section. These entities consist of fifteen regional transit authorities (listed below) and operate similar to private sector companies and the business-type activities described above. The separately audited financial statements of MassDOT's component units may be obtained by directly contacting the various entities.

The fifteen regional transit authorities are as follows:

Berkshire Regional Transit Authority
Brockton Area Transit Authority
Cape Ann Transportation Authority
Cape Cod Regional Transit Authority
Franklin Regional Transit Authority
Greater Attleboro/Taunton Regional Transit Authority
Lowell Regional Transit Authority
Martha's Vineyard Transit Authority
Merrimack Valley Regional Transit Authority
Metrowest Regional Transit Authority
Montachusett Regional Transit Authority
Nantucket Regional Transit Authority
Pioneer Valley Transit Authority
Southeastern Regional Transit Authority
Worcester Regional Transit Authority

Fund Financial Statements

Users of government financial statements will find the fund financial statement presentation to be most familiar. A fund is a grouping of related accounts that is used to maintain control over resources that have been allocated to specific projects or activities. MassDOT uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements.

All of the funds of MassDOT can be divided into three categories as follows:

Governmental Funds – Most of the basic services provided by MassDOT are financed through governmental funds, which are defined as a set of accounts, focused on near-term inflows and outflows of resources to be spent. These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. The focus is also on the balances left at the end of the fiscal year available for spending. This information is useful in evaluating MassDOT’s near-term financing requirements and it is based on the modified accrual basis of accounting. Such statements provide a detailed short-term view of MassDOT’s finances that assist in determining whether there will be adequate financial resources available to meet current needs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison will assist the reader in understanding the long-term impact of the government’s near-term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate the comparison. The reconciliations are presented on the page immediately following each respective governmental funds’ financial statement.

MassDOT has several governmental funds; two of them, the Massachusetts Transportation Trust Fund (MTTF) and Highway Capital Projects fund are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds, which primarily consist of federal grant programs, the Motor Vehicle Inspection Trust Fund (MVITF), and the Central Artery/Tunnel Project Repair and Maintenance Trust (CARM) Fund, are aggregated and presented as other governmental funds.

Proprietary Funds – MassDOT maintains two types of proprietary funds. The enterprise fund is used to report the same function presented as business-type activities in the government-wide financial statements. MassDOT reports the MBTA as a major enterprise fund. An internal service fund is used to account for the Owner Controlled Insurance Program that was established to pay contractors’ workers’ compensation claims related to the Central Artery/Tunnel Project. The services provided by the internal service fund benefit the governmental function and, as a result, are included within governmental activities in the government-wide financial statements.

Proprietary funds financial statements provide the same type of information as in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. As such, there is no reconciliation required between the government-wide financial statements’ business-type activities and the proprietary funds financial statements.

Fiduciary Funds – Such funds are used to account for resources held for the benefit of parties outside MassDOT. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support MassDOT’s own programs. The full accrual basis of accounting is used for fiduciary funds.

MassDOTs' fiduciary funds are Agency funds, which are used to account for assets held in a custodial capacity.

Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information

The notes provide additional information that is essential for a full understanding of the data reported in the government-wide and fund financial statements.

The required supplementary information section includes pension schedules, related to MassDOT's proportionate share of net pension liability and pension contributions, as required by GASB Statement No. 68, "Accounting and Financial Reporting for Pensions".

The supplementary information includes a combining balance sheet and a combining schedule of revenues, expenditures and changes in fund balances for MassDOT's general fund (MTTF). The supplementary information provides details for the MTTF's Metropolitan Highway System (MHS), Western Turnpike (WT), Tobin Bridge and Other Operations.

Government-Wide Financial Analysis

Net Position

The following table reflects the condensed net position based on the statement of net position found on page 22.

Condensed Statement of Net Position
June 30, 2016 and 2015
(in millions)

		Governmental activities		Business-type (MBTA) activities		Total primary government		Change year over year	
		2016	**2015**	**2016**	**2015**	**2016**	**2015**	**Amount**	**%**
Current and other assets	$	1,806	1,864	1,437	1,316	3,243	3,180	63	2%
Capital assets		24,246	23,637	9,140	8,889	33,386	32,526	860	3%
Deferred outflows of resources		415	232	460	423	875	655	220	34%
Total assets & deferred outflows		26,467	25,733	11,037	10,628	37,504	36,361	1,143	3%
Bonds outstanding and notes payable		1,940	2,000	5,656	5,635	7,596	7,635	-39	-1%
Long-term liabilities and deferred inflows		1,289	1,076	2,338	2,115	3,627	3,191	436	14%
Other current liabilities		597	635	520	527	1,117	1,162	-45	-4%
Total liabilities & deferred inflows		3,826	3,711	8,514	8,277	12,340	11,988	352	3%
Net position:									
Net investment in capital assets		22,265	21,681	4,523	4,203	26,788	25,884	904	3%
Restricted		723	743	20	20	743	763	-20	-3%
Unrestricted		(347)	(402)	(2,020)	(1,872)	(2,367)	(2,274)	-93	4%
Total net position	$	22,641	22,022	2,523	2,351	25,164	24,373	791	3%

MassDOT's combined assets and deferred outflows (governmental and business-type activities) exceeded its liabilities and deferred inflows at June 30, 2016 by $25.2 billion (presented as net position). The main component of net position represents the net investment in capital assets, totaling $26.8 billion. The majority of capital assets were transferred to MassDOT by the Commonwealth in fiscal year 2010 as a result of transportation reform pursuant to the enabling legislation M.G.L. Ch.6C; however, the Commonwealth continues to finance the debt for these assets. MassDOT uses these capital assets to service the Commonwealth of Massachusetts; therefore, they are not available for future spending.

Governmental activities current and other assets, totaling $1.8 billion, include restricted and non-restricted cash and investments of $1.3 billion, net receivables of $454 million, and other assets of $3.7 million. Governmental activities long-term liabilities, totaling $1.3 billion, include all noncurrent liabilities, excluding the long-term portion of bonds outstanding and notes payable totaling $1.88 billion. Long-term liabilities in the condensed statement include $441 million of derivative instruments, $211 million in accrued interest on capital appreciation bonds, $578 million pension obligation, and $42 million in other liabilities. Also included are pension related deferred inflows of $16.6 million. Other current liabilities totaling $597 million are due within one year, and exclude the current portion of bonds outstanding and notes payable totaling $57 million. Other current liabilities include accounts payable and accrued expenses of $459 million, unearned revenue of $72 million, accrued interest of $25 million and other liabilities of $41 million. Included within the condensed statement's other liabilities category for both long-term liabilities and deferred inflows and other current liabilities is environmental remediation, workers' compensation, compensated absences, and claims and judgments.

The net increase of $237 million in business-type activities total liabilities and deferred inflows compared to the prior year is attributable in part to increases in OPEB and pension obligations. This is offset by an increase in total assets and deferred outflows of $409 million.

Changes in Net Position

MassDOT's total primary government change in net position, noted on the Condensed Statement of Changes in Net Position on page 10, increased by $791 million in fiscal year 2016. For fiscal year 2016 the governmental activities change in net position amounted to an increase of $619 million and the business-type activities amounted to an increase of $172 million. GASB 68 "Accounting and Financial Reporting for Pensions" and GASB 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date" were implemented during fiscal year 2015, which resulted in the establishment of a net pension liability and deferred inflows and deferred outflows of resources related to pension activities. As a result, MassDOT decreased its 2015 beginning net position by $1.1 billion, $418 million in the governmental activities and $682 million in the business-type activity.

The governmental activities change in net position decreased by $346 million compared to the prior year due to a decrease in revenue of $473 million and a decrease in expenses by $127 million. Capital grants and contributions amount to $2.0 billion of revenues, or 62% of total revenue, a decrease from the prior year in the amount of $432 million. Program areas accounting for the expenditure decrease include Highway expenditure decreases of $184 million and Rail and Transit expenditure increases of $47 million.

The changes in net position are based upon the Statement of Activities found on page 23.

Condensed Statement of Changes in Net Position
June 30, 2016 and 2015
(in millions)

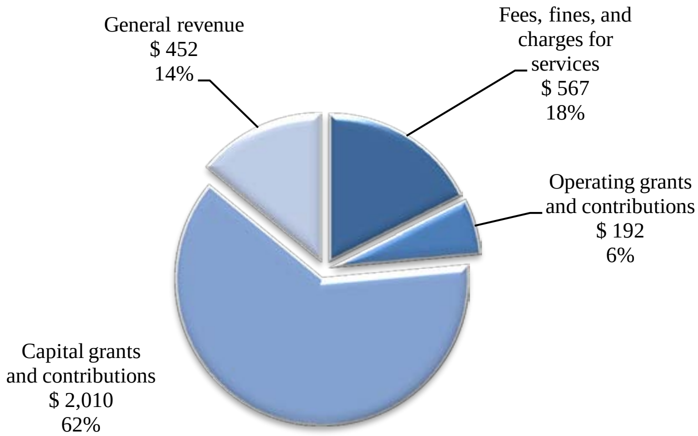
		Governmental Activities		Business-type activity (MBTA)		Total primary government		Change year over year	
		2016	**2015**	**2016**	**2015**	**2016**	**2015**	**Amount**	**%**
Revenues:									
Program revenues:									
Fees, fines, and charges for services	$	567	538	693	661	1,260	1,199	61	5%
Operating grants and contributions		192	216	-	-	192	216	-24	-11%
Capital grants and contributions		2,010	2,442	562	567	2,572	3,009	-437	-15%
General revenues:									
Operating assistance from the Commonwealth		440	495	156	122	596	617	-21	-3%
Taxes and assessments		-	-	1,149	1,131	1,149	1,131	18	2%
Other income		8	-	-42	19	-34	19	-53	-279%
Unrestricted investment income		4	3	29	18	33	21	12	57%
Total revenues		3,221	3,694	2,547	2,518	5,768	6,212	-444	-7%
Expenses:									
Highway		1,670	1,854	-	-	1,670	1,854	-184	-10%
Office of the Secretary		220	202	-	-	220	202	18	9%
Registry of Motor Vehicles		84	97	-	-	84	97	-13	-13%
Rail and Transit		503	456	-	-	503	456	47	10%
Aeronautics		17	10	-	-	17	10	7	70%
Debt service-interest		108	110	-	-	108	110	-2	-2%
MBTA		-	-	2,375	2,330	2,375	2,330	45	2%
Total expenses		2,602	2,729	2,375	2,330	4,977	5,059	-82	-2%
Change in net position		619	965	172	188	791	1,153	-362	-31%
Net position – beginning*		22,022	21,057	2,351	2,163	24,373	23,220	1,153	5%
Net position – ending	$	22,641	22,022	2,523	2,351	25,164	24,373	791	3%

* Fiscal year 2015 restated due to implementation of GASB 68.

Total Revenues

For the fiscal year ended June 30, 2016, total governmental activities revenues ($3.2 billion) were comprised of general revenues ($452 million) and program revenues ($2.8 billion), which include fees, fines and charges for services of $567 million, operating grants and contributions of $192 million and capital grants and contributions of $2.0 billion.

Governmental Activities - Total Revenue (in millions)



The governmental activities overall revenue decreased by $473 million, or 13%, from the prior year due to a decrease in capital grants and contributions revenue of $432 million and $46 million in general revenue.

Governmental Activities - Program Revenue
(in millions)

	Total		Change year over year	
	2016	**2015**	**Amount**	**%**
Program revenues				
Fees, fines, and charges for services	$ 567	538	29	5%
Operating grants and contributions	192	216	-24	-11%
Capital grants and contributions	2,010	2,442	-432	-18%
General revenue	452	498	-46	-9%
	$ 3,221	3,694	-473	-13%

Within program revenue, fees, fines, and charges for services were $567 million. This represents a variety of MassDOT revenues, including tolls ($398 million), rental/lease ($55 million), and departmental revenue, such as advertising and highway-related permit fees ($114 million). Program revenue – fees, fines and charges for services increased $29 million from the prior year.

Program Revenue - Fees, fines, and charges for services
(in millions)

	Total		Change year over year	
	2016	**2015**	**Amount**	**%**
Tolls	$ 398	381	17	4%
Rental/lease	55	44	11	25%
Departmental	114	113	1	1%
	$ 567	538	29	5%

Operating grants and contributions of $192 million represent both contract assistance for debt service from the Commonwealth and federal grants from various federal agencies, such as Federal Transit Authority, Federal Rail Administration, and Federal Aviation Administration. These contributions are restricted for specific designated purposes and account for approximately 6% of the total MassDOT program revenues. The contributions decreased by approximately $24 million in comparison with fiscal year 2015.

Capital grants and contributions of $2.0 billion include funding from the Commonwealth and federal agencies for projects such as the Accelerated Bridge Program (ABP), Statewide Road and Bridge Program, Chapter 90 Local

Aid, Regional Transit Authority capital assistance and other capital programs. The majority of these programs are within the Highway division, which accounts for $1.5 billion, or 77%, of the overall capital grants and contributions.

General Revenue

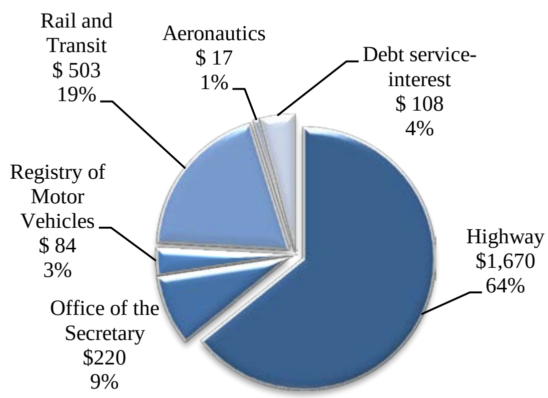
General revenues, totaling $452 million, include operating assistance from the Commonwealth and investment income. The primary factor for the decrease of $46 million from the prior year was the adjustment to operating assistance from the Commonwealth to reflect the early retirement incentive program initiated in 2015 saving of $30 million.

Expenses

For the fiscal year ended June 30, 2016, expenses for governmental activities totaled $2.6 billion. The Highway Division's operations continue to be one of the MassDOT's highest priorities and commitments, representing $1.7 billion, or 64%, of the total governmental activities expenses.

The balance of 36% is attributable to the Office of the Secretary with $220 million, the Rail and Transit Division with $503 million, and debt service-interest expenses of $108 million. The Registry of Motor Vehicles (RMV) and Aeronautics complete the operational spending pattern with an approximate total of $101 million.

Govermental Activities - Expenses
(in millions)



Overall, MassDOT's governmental activities expenses decreased by $127 million, or 5%, from the prior year. Key elements of this change are a decrease of $184 million for highway activities and an increase of $47 million for rail and transit activities.

Governmental Activities - Expenses
(in millions)

	Total 2016	Total 2015	Change year over year Amount	Change year over year %
Highway	$ 1,670	1,854	-184	-10%
Office of the Secretary	220	202	18	9%
Registry of Motor Vehicles	84	97	-13	-13%
Rail and Transit	503	456	47	10%
Aeronautics	17	10	7	70%
Debt service-interest	108	110	-2	-2%
	$ 2,602	2,729	-127	-5%

Business-Type Activity

The net position for business-type activities is $2.5 billion, an increase of $172 million from the prior year. The increase is primarily due to increases in transportation revenue, intergovernmental revenues and interest and other nonoperating income. These increases were offset by a swap termination payment of $78 million and increases in operating expenses of $52 million due to increases in pension, commuter rail and depreciation expenses.

Government Funds Financial Analysis

As noted earlier, MassDOT uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

As of June 30, 2016, MassDOT's governmental funds (MTTF, Highway capital projects, and other governmental) reported a combined ending fund balance of $1.24 billion. Of this amount, $2.7 million is nonspendable and relates to prepaid expenditures. The majority of the remaining fund balance, $1.19 billion is restricted; this consists of debt service payments and grants or bonded projects that are dictated by external sources and other purposes such as insurance reserve and turnpike operations. Approximately $12.3 million of the fund balance is assigned and $31 million is unassigned. All these funds are incorporated in the annual budget and approved by the MassDOT Board of Directors. The MTTF (general fund) is the chief operating fund of MassDOT. The MTTF's fund balance has increased by $15 million or 2% over the prior year. As of June 30, 2016, the total fund balance was $781 million, comprised of $736 million restricted, $2.7 million nonspendable (prepaid expenditures), $11.4 million assigned and $32 million unassigned.

In addition to the MTTF, MassDOT has established the Highway Capital Projects fund as a major governmental fund. The Highway Capital Projects fund accounts for highway construction projects financed primarily through

federal reimbursements passed through the Commonwealth and contract assistance payments received directly from the Commonwealth. As of June 30, 2016, the total fund balance was $59 million, a decrease of $3 million from the prior fiscal year as a result of expenditures exceeding revenues by $3 million.

The other governmental funds are special revenue funds used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Projects within this category include federal grants, the Motor Vehicle Inspection Trust Fund (MVITF) activity, and the CARM activity. As of June 30, 2016, the total fund balance was $401 million.

Proprietary Funds

The Proprietary Funds Statement of Fund Net Position provides the same type of information found in the government-wide statements, but in more detail. MassDOT's proprietary funds include the MBTA (a blended component unit), as a major enterprise fund, and the Owner Controlled Insurance Program (OCIP), an internal service fund.

The net position of the MBTA at the end of the year totaled $2.5 billion, which consisted of $4.5 billion in net investment in capital assets, $20 million restricted for other purposes, and a deficit of $2.0 billion in unrestricted net position. OCIP's net position at the end of the year totaled $1.4 million, which is considered restricted for purposes of this activity.

Governmental Funds – MTTF General Fund

MTTF Revenues

MTTF (General fund) revenues totaled $1.1 billion in fiscal year 2016, a decrease of $6 million, or 1%, from fiscal year 2015. The Commonwealth Transportation Fund (CTF) revenues of $565 million and toll revenues of $395 million combine for 87% of the total revenues. The remaining 13% consists of grants and contract assistance of $35 million and other revenues, which includes rental/lease revenue, investment income, advertising, highway-related permit, and other fees, of $104 million.

The CTF revenues consist of $100 million dedicated for MHS bonds (through Chapter 27, Section 9 of the Acts of 2009), $25 million for the operations and maintenance of portions of the Central Artery and the Central Artery North Area, and $440 million for operations. The operational funding included $349 million for MassDOTs' operations, $82 million for RTA's contract assistance, and $9 million for the Merit Rating Board.

MTTF General Fund - Revenue
(in millions)

	Total		Change year over year	
	2016	**2015**	**Amount**	**%**
Toll	$ 395	377	18	5%
Commonwealth transportation fund	565	621	(56)	-9%
Other (grants, rental/lease, departmental/other)	139	107	32	30%
	$ 1,099	1,105	(6)	-1%

The $395 million in toll revenue consists of pledged revenue for the MHS of $214 million and $147 million for the WT, as well as unpledged revenue of $34 million for the Tobin Bridge operations.

MTTF General Fund Toll Revenue by Roadway
(in millions)

	Total		Change year over year	
	2016	**2015**	**Amount**	**%**
Metropolitan highway system	$ 214	204	10	5%
Western Turnpike	147	139	8	6%
Tobin Bridge	34	34	-	0%
	$ 395	377	18	5%

MTTF Expenditures

During fiscal year 2016, the general fund's total expenditures decreased by 1% from $1.2 billion to $1.1 billion. The Highway division's expenditure decrease of 10% ($78 million) is due to one-time legal settlement of $88 million paid in fiscal year 2015. Expenditures related to The Office of the Secretary increased by 37% ($32 million) due to a transfer of IT expenditures from capital accounts to operating accounts ($26 million).

MTTF General Fund Expenditures
(in millions)

		Total		Change year over year	
		2016	**2015**	**Amount**	**%**
Highway	$	687	765	(78)	-10%
Office of the Secretary		119	87	32	37%
Registry of motor vehicles		70	71	(1)	-1%
Rail and Transit		86	82	4	5 %
Aeronautics		2	1	1	100%
Debt service (principal and interest)		170	171	(1)	-1%
	$	1,134	1,177	(43)	-25%

MTTF Budgetary Highlights

Funding for MassDOT's general fund (MTTF) operations is dependent in part upon operating assistance from the Commonwealth of Massachusetts' CTF, toll operations, and other departmental revenues.

MassDOT submits its general fund (MTTF) budget to the Standing Committee on Finance and Audit for review and to the MassDOT Board of Directors for final approval. The Board approved a $1.2 billion operating budget to cover fiscal year 2016 operations.

The following are some of the major fiscal year highlights:

1. The Transportation Finance Act (Chapter 46 of the Acts of 2013) allows MassDOT to transfer excess revenues from the MVITF to the general fund (MTTF), providing all expenses of the motor vehicle inspection program are met. In fiscal year 2016, MassDOT transferred $41 million from the MVITF to the MTTF.
2. The Transportation Finance Act (Chapter 46 of the Acts of 2013) also allowed MassDOT to move approximately $38.4 million from capital to MassDOT operations to complete a three year transition to move all non-project costs to the operating budget.
3. In May 2015 An Act Providing for an Employee Retirement Incentive Program ("ERIP" Chapter 19 of the Acts of 2015) reduced MassDOT's payroll for fiscal year 2016. Eligible employees who participated in the program were required to retire by June 30, 2015. ERIP included a deferred payout mechanism for accrued vacation time and unpaid sick leave. Payments in lieu of any accrued vacation time and any unused sick leave are scheduled to be made in three installments on September 1, 2015 (fiscal year 2016), July 1, 2016 (fiscal year 2017) and July 1, 2017 (fiscal year 2018). During 2016, operating transfers from the Commonwealth Transportation Fund were reduced by $27.5 million to reflect the ERIP program reduction in salaries net of salary reserve for vacation and sick buy-out.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2016, MassDOT's combined capital assets totaling $33.4 billion (net of depreciation) consisted of $24.3 billion in governmental activities and $9.1 billion in business-type activities. This total amount represents a net increase (including additions and deductions) of $860 million, or 3% percent, over last year. MassDOT's capital assets include land, construction in progress, infrastructure, ways and structures, buildings, equipment, vehicles, and software as shown in the table below.

MassDOT Capital Assets - At Year End, Net of Depreciation

(in millions)

	Governmental activities		Business-type activities		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Land	$ 986	982	385	376	1,371	1,358
Construction in progress	6,909	6,174	1,232	970	8,141	7,144
Infrastructure	16,219	16,330	6,319	6,372	22,538	22,702
Buildings and equipment	89	97	1,204	1,170	1,293	1,267
Vehicles	40	50	—	—	40	50
Software	2	4	—	—	2	4
Total	$ 24,245	23,637	9,140	8,888	33,385	32,525

Within governmental activities, construction in progress (CIP) increased by $735 million due to additions to on-going CIP projects, which included $321.6 million for assets related to the Accelerated Bridge Program's 5 mega-projects (Amesbury Whittier Bridge, Boston-Cambridge Longfellow Bridge, Quincy Fore River Bridge, Fall River Braga Bridge, Shrewsbury-Worcester Burns Bridge, Woods Memorial Bridge – Everett- Medford, Lexington Bridge as well as 6 bridge locations on I-95). The governmental activities net book value of infrastructure decreased primarily due to the increase in accumulated depreciation of the existing roads and bridges.

Additional information on MassDOT's capital assets can be found in notes 4 and 20.

Debt

At year-end, MassDOT had $7.2 billion in outstanding bonds and notes compared to $7.3 billion last year.

MassDOT Outstanding Bonds and Notes at Year End
(in millions)

		Governmental Activities		Business-type activities (MBTA)		Total	
		2016	2015	2016	2015	2016	2015
General Transportation System Bonds (GTS)	$	-	-	206	230	206	230
Revenue		1,898	1,957	4,316	4,272	6,214	6,229
Build America Bonds (BABs)		-	-	428	428	428	428
Commercial Paper		-	-	67	94	67	94
Metropolitan Boston Transit Parking (MBTPC)		-	-	305	305	305	305
	$	1,898	1,957	5,322	5,329	7,220	7,286

MassDOT maintains bond ratings of A or higher for its governmental activities bonds. The Capital Appreciation Bonds are rated (AA-) by Standard & Poor's Corporation (S&P), (A3) by Moody's Investors Services Inc., and (A+) by Fitch. MassDOT senior fixed rate bonds are rated (A+) by both S&P and Fitch and (A3) by Moody's. MBTA (business–type activity) bond ratings are as follows by Moody's Investor Services: General Transportation System bonds (Aa1), Senior Sales Tax Revenue bonds (Aa2), Assessment Revenue bonds (Aa1), Revenue Build America bonds (Aa2), Commercial Paper (P-1). MBTA bond ratings rated by S & P is as follows for Metropolitan Boston Transit Parking Corporation bonds (A+).

Additional information on MassDOT's debt can be found in notes 5 and 21.

Construction Commitments

MassDOT's outstanding commitments for engineering and design and construction contracts were $5.7 billion at June 30, 2016. Major commitments include funding for the Highway Division in the amount of $2.5 billion for numerous projects which include All Electronic Tolling System (AET), construction of the Silverline Gateway Busway, bridge replacement and rehabilitation (Fore River Bridge, Longfellow Bridge, Whittier Bridge), Add-A-Lane I-95 project and rehabilitation of viaduct along I-91. Major commitments include funding for various collaborations with the MBTA for projects such as the Green line extension, Red and Orange line infrastructure improvements and vehicle purchase, and South Coast Rail improvements ($2.6 billion).

Economic Factors and Next Year's Budgets and Rates

The MassDOT Board approved an original fiscal year 2017 operating expenditure and debt service obligation budget of $1.2 billion in June 2016. The budget reflects the goal of All-Electronic Tolling (AET) to be net revenue neutral. Operating revenues which include fees, permits, court fines are budgeted to increase by 1.2%.

The fiscal year 2017 budget also decreased federal grants by 20% based on projected spending. Construction and maintenance expenses are budgeted for a 10% decrease.

MassDOT continues to aggressively administer its 2010 MHS Variable Rate Demand Bonds bank liquidity facilities. MassDOT replaced five facilities in 2013, three in 2014, and replaced four in April of 2016. The aggregate annual savings are approximately $2 million for the 2013 and 2014 replacements. 2016 replacements are expected to yield approximately $1 million in savings annually. In 2016 MassDOT re-procured remarketing agent services for the above bonds which will result in anticipated annual savings of approximately $0.28 million.

Future Pronouncements

GASB has issued the following statements and MassDOT is currently assessing the impact of each statement.

In June 2015, GASB approved Statement No. 75, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" (GASB 75), which revises and establishes new financial reporting requirements for most governments and governmental agencies that provide postemployment benefits other than pensions to their employees. It will apply to MassDOT's financial statements and is effective for fiscal years beginning after June 15, 2017 (fiscal year 2018). GASB 75 replaces the requirements of Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions", as amended, and Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB". Statement No. 75 will require MassDOT to recognize a liability for postemployment benefits other than pensions. The Statement also requires new note disclosures and new required supplementary information.

In December 2015, GASB issued Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" (GASB 78). The Statement addresses a practice issue regarding the scope and applicability of Statement No. 68, "Accounting and Financial Reporting for Pensions". The issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided such pensions. It is effective for fiscal years beginning after December 15, 2015 (fiscal year 2017).

In January 2016, GASB issued Statement No. 80, "Blending Requirements for Certain Component Units" (GASB 80), an amendment of GASB No. 14, "The Financial Reporting Entity". GASB 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The Statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. MassDOT is not a sole corporate member of a not-for-profit corporation; therefore, management believes GASB 80 will not impact the financial statements.

In March 2016, GASB issued Statement No. 81, "Irrevocable Split-Interest Agreements". The Statement improves accounting and financial reporting by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The Statement also requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a

government recognize revenue when the resources become applicable to the reporting period. It is effective for fiscal years beginning after December 15, 2016 (fiscal year 2018).

In March 2016, GASB issued Statement No. 82, "Pension Issues". The objective of Statement No. 82 is to address issues with respect to Statement No. 67, Financial Reporting for Pension Plans and Statement No. 68, Accounting and Financial Reporting for Pensions. Statement No. 82 amends Statements 67 and 68 and requires the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. It is effective for reporting periods beginning after June 15, 2016 (fiscal year 2017).

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. The Statement established criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. The Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. It is effective for reporting periods beginning after June 15, 2018 (fiscal year 2019).

Contacting MassDOT's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MassDOT's finances and to show MassDOT's accountability for the money it receives. Questions concerning the information provided in this report or requests for additional information should be addressed to MassDOT's Chief Financial Officer at: 10 Park Plaza, Suite 5450, Boston, Massachusetts, 02116.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Statement of Net Position

June 30, 2016

(Dollars in thousands)

		Primary government			
Assets and Deferred Outflows of Resources		**Governmental activities**	**Business-type activities**	**Total**	**Component units**
Current assets:					
Cash and short-term investments	$	45,209	272,459	317,668	35,539
Restricted cash and investments		1,253,140	96,449	1,349,589	1,079
Derivative instrument		11,594	-	11,594	-
Receivables, net of allowance for uncollectibles:					
Due from Commonwealth		392,621	99,589	492,210	10,336
Due from federal government		18,336	19,119	37,455	25,224
Other		43,301	26,836	70,137	78,077
Other assets		3,704	38,037	41,741	6,841
Total current assets		1,767,905	552,489	2,320,394	157,096
Noncurrent assets:					
Restricted cash and investments		38,096	860,113	898,209	-
Receivables, net of allowance for uncollectibles:					
Due from Commonwealth		-	-	-	2,880
Due from federal government		-	-	-	1,375
Other		-	-	-	14,398
Other assets		-	24,601	24,601	1,025
Capital assets:					
Nondepreciable		7,895,496	1,617,177	9,512,673	120,538
Depreciable, net of accumulated depreciation		16,350,120	7,522,373	23,872,493	383,872
Total noncurrent assets		24,283,712	10,024,264	34,307,976	524,088
Total assets		26,051,617	10,576,753	36,628,370	681,184
Deferred Outflows of Resources:					
Loss on debt refundings		59,356	194,223	253,579	-
Derivative instruments		209,214	36,457	245,671	-
Pension related		146,353	229,728	376,081	5,791
Total deferred outflows of resources		414,923	460,408	875,331	5,791
Total assets and deferred outflows of resources	$	26,466,540	11,037,161	37,503,701	686,975
Liabilities and Deferred Inflows of Resources					
Current liabilities:					
Accounts payable and accrued expenses	$	459,013	263,176	722,189	57,089
Due to fiduciary funds		723	-	723	-
Unearned revenue		71,827	-	71,827	4,349
Due to Commonwealth		-	15,583	15,583	-
Accrued interest payable		25,534	130,449	155,983	1,156
Bonds and notes payable		57,406	344,260	401,666	60,823
Capital lease obligations		-	4,026	4,026	-
Other liabilities		40,532	106,346	146,878	4,093
Total current liabilities		655,035	863,840	1,518,875	127,510
Noncurrent liabilities:					
Accrued interest on capital appreciation bonds		211,462	-	211,462	-
Bonds and notes payable		1,882,306	5,311,931	7,194,237	51,736
Liability for derivative instruments		441,211	46,075	487,286	-
Capital lease obligations		-	67,956	67,956	-
Net OPEB and pension obligation		577,676	2,096,836	2,674,512	48,649
Other liabilities		41,579	86,601	128,180	4,399
Unearned revenue		-	30,652	30,652	1,157
Total noncurrent liabilities		3,154,234	7,640,051	10,794,285	105,941
Total liabilities		3,809,269	8,503,891	12,313,160	233,451
Deferred Inflows of Resources:					
Debt instruments		-	208	208	-
Pension related		16,600	9,788	26,388	2,186
Total liabilities and deferred inflows of resources	$	3,825,869	8,513,887	12,339,756	235,637
Net Position					
Net investment in capital assets		22,264,668	4,523,401	26,788,069	497,283
Restricted		722,722	19,533	742,255	6,221
Unrestricted (Deficit)		(346,719)	(2,019,660)	(2,366,379)	(52,166)
Total net position	$	22,640,671	2,523,274	25,163,945	451,338

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Statement of Activities

Fiscal year ended June 30, 2016
(Dollars in thousands)

		Program revenues			Net (expense)/revenue and changes in net position			
					Primary government			
Functions/programs	**Expenses**	**Fees, fines, and charges for services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Total**	**Component units**
Primary government:								
Governmental activities:								
Highway	$ 1,669,624	449,649	33,792	1,542,194	356,011	-	356,011	-
Office of the Secretary	219,867	87,276	7,763	91,832	(32,996)	-	(32,996)	-
Registry of motor vehicles	84,033	23,391	1,477	1,225	(57,940)	-	(57,940)	-
Rail and Transit	503,477	6,642	47,242	359,540	(90,053)	-	(90,053)	-
Aeronautics	17,059	447	8	15,328	(1,276)	-	(1,276)	-
Debt service – interest	108,213	-	101,943	-	(6,270)	-	(6,270)	-
Total governmental activities	2,602,273	567,405	192,225	2,010,119	167,476	-	167,476	-
Business-type activities:								
Massachusetts Bay Transportation Authority	2,375,095	693,180	-	561,674	-	(1,120,241)	(1,120,241)	-
Total primary government	$ 4,977,368	1,260,585	192,225	2,571,793	167,476	(1,120,241)	(952,765)	-
Component units:								
Aggregate component units	$ 455,968	239,999	163,548	95,382				42,961
General revenues:								
Operating assistance from the Commonwealth					$ 439,540	155,833	595,373	-
Taxes and assessments					-	1,149,157	1,149,157	-
Other income (expense)					8,041	(41,624)	(33,583)	-
Unrestricted investment income					3,680	29,308	32,988	-
Total general revenues					451,261	1,292,674	1,743,935	-
Change in net position					618,737	172,433	791,170	42,961
Net Position – beginning of year (as restated by component units)					22,021,934	2,350,841	24,372,775	408,377
Net Position – end of year					$ 22,640,671	2,523,274	25,163,945	451,338

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Governmental Funds

Balance Sheet

June 30, 2016

(Dollars in thousands)

Assets		MTTF (General)	Highway capital projects	Other governmental funds	Total governmental funds
Cash and short-term investments	$	44,295	-	914	45,209
Restricted cash and investments		825,136	59,469	400,912	1,285,517
Receivables, net of allowance for uncollectibles:					
Due from Commonwealth		-	392,621	-	392,621
Due from federal government		5,667	-	12,669	18,336
Other		43,301	-	-	43,301
Due from other funds		3,098	-	-	3,098
Other assets		2,654	-	-	2,654
Total assets	$	924,151	452,090	414,495	1,790,736
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable and accrued expenditures	$	53,424	393,458	10,347	457,229
Unearned revenue		71,827	-	-	71,827
Due to other funds		723	-	3,098	3,821
Total liabilities		125,974	393,458	13,445	532,877
Deferred Inflows of Resources:					
Unavailable Revenue		17,043	-	-	17,043
Fund balances:					
Nonspendable		2,655	-	-	2,655
Restricted		735,524	58,632	400,437	1,194,593
Assigned		11,360	-	914	12,274
Unassigned		31,595	-	(301)	31,294
Total fund balances		781,134	58,632	401,050	1,240,816
Total liabilities, deferred inflows of resources, and fund balances	$	924,151	452,090	414,495	1,790,736

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position

June 30, 2016

(Dollars in thousands)

Total governmental fund balances (page 24):	$	1,240,816
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		24,245,616
Receivables that are measurable but not available are reported as deferred inflows of resources in the governmental funds but recognized as revenue on a full accrual basis.		17,043
Capitalized loss on debt refunding in governmental activities that is not capitalized at a fund level in the governmental funds.		59,356
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.		(236,996)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds and notes payable, net		(1,939,712)
Workers' compensation claims		(23,650)
Other claims and judgments		(8,216)
Compensated absences		(44,209)
Environmental remediation		(2,437)
Derivative instruments, net		(220,403)
Net pension liability, net		(447,923)
An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position.		1,386
Net position of governmental activities (page 22)	$	22,640,671

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Fiscal year ended June 30, 2016

(Dollars in thousands)

	MTTF (General)	Highway capital projects	Other governmental funds	Total governmental funds
Revenues:				
Toll revenue:				
Pledged as security for revenue bonds	$ 361,018	-	-	361,018
Unpledged	34,318	-	-	34,318
Commonwealth transportation fund:				
Operations	439,540	-	-	439,540
Metropolitan highway system bonds	100,000	-	-	100,000
Central artery operations and maintenance	25,000	-	-	25,000
Commonwealth grants and contract assistance	90	1,497,767	102	1,497,959
Federal grants and reimbursements:				
Passed through the Commonwealth	-	512,199	-	512,199
Direct	35,352	-	48,738	84,090
Rental/lease income	44,780	10,435	-	55,215
Investment income	4,567	152	7,637	12,356
Departmental and other	54,320	835	58,536	113,691
Total revenues	1,098,985	2,021,388	115,013	3,235,386
Expenditures:				
Current:				
Highway	686,720	1,553,339	3,662	2,243,721
Office of the Secretary	119,318	92,505	2,936	214,759
Registry of motor vehicles	69,596	1,234	16,416	87,246
Rail and Transit	86,000	362,175	46,550	494,725
Aeronautics	1,505	15,440	-	16,945
Debt service:				
Principal	58,021	-	-	58,021
Interest	112,092	-	-	112,092
Total expenditures	1,133,252	2,024,693	69,564	3,227,509
Excess (Deficiency) of revenues over expenditures	(34,267)	(3,305)	45,449	7,877
Other financing sources (uses):				
Transfers in	41,024	-	-	41,024
Transfers out	-	-	(41,024)	(41,024)
Proceeds from Sale of Land	8,041	-	-	8,041
Total other financing sources (uses)	49,065	-	(41,024)	8,041
Net change in fund balances	14,798	(3,305)	4,425	15,918
Fund balances at beginning of year	766,336	61,937	396,625	1,224,898
Fund balances at end of year	$ 781,134	58,632	401,050	1,240,816

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Reconciliation of the Statement of Revenues, Expenditures And
Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Fiscal year ended June 30, 2016

(Dollars in thousands)

Net change in fund balances – total governmental funds (page 26)	$	15,918
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period:		
Capital outlays		1,306,927
Depreciation		(698,693)
Contributed capital assets are reported in the statement of activities as capital contributions but are not reported in the governmental funds		-
In the statement of activities, only the gain/(loss) on the disposal of capital assets is reported, whereas in the governmental funds the proceeds from the disposal increase financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the disposed capital assets.		(48)
Certain revenues in the statement of activities that do not provide current financial resources are not recognized in the statement of revenues, expenditures and changes in fund balances. As a result, the recognition of revenue for certain accounts receivable differ between the two statements. This amount represents the net change in deferred inflows of resources		(28,356)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period:		
Bond maturities		58,021
Amortization of premiums		2,509
Amortization of deferred losses on refunding transactions		(2,672)
Amortization of bond discounts		(462)
Amortization of swap payments received		495
Derivatives are reported in the government-wide statements but are not reported in the governmental liability for funds. This amount represents the net changes in the derivative instruments and the amortization of hedging derivative premiums.		3,304
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.		4,008
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes in accruals:		
Net pension liability, net		(39,416)
Workers' compensation		502
Compensated absences		(559)
Environmental remediation		(1,105)
An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The net activity of the internal service fund is reported with governmental activities.		(1,636)
Changes in net position of governmental activities (page 23)	$	618,737

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Proprietary Funds
Statement of Net Position
June 30, 2016
(Dollars in thousands)

Assets and Deferred Outflows of Resources		**Business-type activities - enterprise fund MBTA**	**Governmental activities - internal service fund**
Current assets:			
Unrestricted cash and short-term investments	$	272,459	-
Restricted cash and investments		96,449	5,720
Receivables, net of allowance for uncollectibles:			
Due from Commonwealth		99,589	-
Due from federal government		19,119	-
Other		26,836	-
Other assets		38,037	1,050
Total current assets		552,489	6,770
Noncurrent assets:			
Restricted cash and investments		860,113	-
Other assets		24,601	-
Capital assets:			
Nondepreciable		1,617,177	-
Depreciable, net of accumulated depreciation		7,522,373	-
Total noncurrent assets		10,024,264	-
Total assets		10,576,753	6,770
Deferred Outflows of Resources:			
Loss on debt refundings		194,223	-
Derivative instruments		36,457	-
Pension related		229,728	
Total deferred outflows of resources		460,408	-
Total assets and deferred outflows of resources		11,037,161	6,770
Liabilities and Deferred Inflows of Resources			
Current liabilities:			
Accounts payable and accrued expenses		263,176	1,784
Accrued interest		130,449	-
Bonds payable		344,260	-
Due to Commonwealth		15,583	-
Capital lease obligations		4,026	-
Other liabilities		106,346	1,200
Total current liabilities		863,840	2,984
Noncurrent liabilities:			
Accrued liabilities		86,601	-
Bonds payable		5,311,931	-
Capital lease obligations		67,956	-
Net OPEB and pension obligation		2,096,836	-
Liability for derivative instruments		46,075	-
Other liabilities			2,400
Unearned revenue		30,652	-
Total noncurrent liabilities		7,640,051	2,400
Total liabilities		8,503,891	5,384
Deferred Inflows of Resources:			
Debt instruments		208	-
Pension related		9,788	
Total liabilities and deferred inflows of resources		8,513,887	5,384
Fund Net Position			
Net investment in capital assets		4,523,401	-
Restricted		19,533	1,386
Unrestricted		(2,019,660)	-
Total fund net position	$	2,523,274	1,386

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Position

Fiscal year ended June 30, 2016

(Dollars in thousands)

		Business-type activities - enterprise fund MBTA	Governmental activities - internal service fund
Operating revenues:			
Revenue from transportation	$	693,180	-
Total operating revenues		693,180	-
Operating expenses:			
Salaries and benefits		908,216	-
Materials, supplies and services		247,380	-
Injuries and damages		20,343	1,622
Commuter railroad and local subsidy expense		500,013	-
Other		11,865	-
Depreciation and amortization		419,774	
Total operating expenses		2,107,591	1,622
Operating income (loss)		(1,414,411)	(1,622)
Nonoperating revenues (expenses):			
Dedicated sales tax		986,274	-
Contract assistance – Commonwealth of Massachusetts		155,833	-
Dedicated local assessments		162,883	-
Fair value change in investment derivatives		1,124	-
Interest rate swap termination payments		(78,865)	-
Other nonoperating income		36,117	-
Interest income		29,308	(14)
Interest expense		(267,504)	-
Total nonoperating revenues (expenses), net		1,025,170	(14)
Income (loss) before capital grants and contributions and transfers		(389,241)	(1,636)
Capital grants and contributions		561,674	-
Increase (decrease) in net position		172,433	(1,636)
Fund net position at beginning of year		2,350,841	3,022
Fund net position at end of year	$	2,523,274	1,386

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Proprietary Funds

Statement of Cash Flows

Fiscal year ended June 30, 2016

(Dollars in thousands)

	Business-type activities - enterprise fund MBTA	Governmental activities - internal service fund
Cash flows from operating activities:		
Receipts from customers and users	$ 621,366	-
Receipts from other operations	73,239	-
Payments to suppliers and vendors	(932,648)	-
Payments to employees	(578,022)	-
Claims, premiums and judgments paid	-	(4,806)
Net cash used in operating activities	(816,065)	(4,806)
Cash flows from capital and related financing activities:		
Additions to transportation property	(677,041)	-
Interest paid	(259,741)	-
Increase in deferred credit/charges	956	-
Commercial paper (retirements)	(27,050)	-
Payments on debt	(346,935)	-
Proceeds from bond and note issuances	358,405	-
Bond construction and reserve account receipts	(134,200)	-
Proceeds from bond premiums	23,335	-
Payments on swap termination	(78,865)	-
Payments of capital lease activity	(4,475)	-
		-
Capital grants	560,479	-
Other	4,230	-
Net cash used in capital and related financing activities	(580,902)	-
Cash flows from noncapital financing activities:		
Sales tax and local assessment	1,310,221	-
Reimbursable payments	22,155	-
Net cash from noncapital financing activities	1,332,376	-
Cash flows from investing activities:		
Proceeds from sales of investments	-	4,059
Purchases of investments	-	-
Investment income (loss)	31,552	(14)
Net cash from investing activities	31,552	4,045
Net change in cash and short-term investments	(33,039)	(761)
Cash and cash equivalents, restricted and other special accounts, beginning of year	401,947	6,481
Cash and cash equivalents, restricted and other special accounts, end of year	$ 368,908	5,720 **(a)**
Reconciliation of operating (loss) to net cash from operating activities:		
Operating (loss)	$ (1,414,411)	(1,622)
Adjustments to reconcile operating (loss) to net cash used in operating activities:		
Charges not requiring current expenditure of cash:		
Depreciation	419,774	-
Increase in pension liability	60,303	-
Increase in net OPEB liability	117,729	-
Changes in all other working capital accounts, except cash and cash equivalents and short-term debt	540	(3,184)
Total adjustments	598,346	(3,184)
Net cash used in operating activities	$ (816,065)	(4,806)

(a) This amount is included as restricted cash and investments in the proprietary funds statement of fund net position.

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Fiduciary Funds

Statement of Net Position

June 30, 2016

(Dollars in thousands)

		Agency funds
Assets		
Cash and short-term investments	$	34,431
Due from general fund		723
Receivables:		
Other		13,587
Total assets		48,741
Liabilities		
Other liabilities	$	48,741

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies and Practices

(a) Description of Business

The Massachusetts Department of Transportation (MassDOT) was established by Chapter 25 of the Acts of 2009 of the Commonwealth of Massachusetts (as amended, the Transportation Reform Act), which was enacted and approved in June 2009. The Transportation Reform Act was designed to reform the transportation system of the Commonwealth of Massachusetts (the Commonwealth) and created the new authority, MassDOT, through enactment of Chapter 6C of Massachusetts General Laws (the Enabling Act). MassDOT has a separate legal existence from the Commonwealth and is governed by a board appointed by the Governor. The Governor has appointed a Secretary of MassDOT, who serves as MassDOT's chief executive officer.

MassDOT is governed by an eleven member board, including the Secretary of Transportation who serves as ex officio chair. Ten members are appointed by the Governor. Four members, other than the chair, serve for terms that are coterminous with the Governor. The remaining six members serve for a four–year term. The Board of Directors of MassDOT was authorized to begin exercising its powers on November 1, 2009.

MassDOT was created through the transfer of the assets, liabilities and equity of:

1. The former Massachusetts Turnpike Authority (including both the Metropolitan Highway System and the Western Turnpike), which was dissolved as part of the legislation
    a. The Metropolitan Highway System comprises the Boston Extension of the Turnpike, the Callahan Tunnel, the Central Artery/Tunnel (CA/T Project), the Central Artery North Area (CANA), the Sumner Tunnel and the Ted Williams Tunnel. The Western Turnpike consists of that portion of the Turnpike extending from the New York border in the Town of West Stockbridge to Route 128 in Weston.
    b. MassDOT assumed the rights, powers, and duties of the former Massachusetts Turnpike Authority upon the November 1, 2009 transfer
2. The operations of the Massachusetts Highway Department of the Commonwealth
3. The operations of the Massachusetts Aeronautic Commission
4. The operations of the Registry of Motor Vehicles of the Commonwealth
5. The operations of the Executive Office of Transportation of the Commonwealth
6. Certain assets of the Department of Conservation and Recreation (DCR) of the Commonwealth

In addition, the Tobin Bridge (including its associated land and buildings) was transferred from the Massachusetts Port Authority (effective January 1, 2010).

The Merit Rating Board was transferred to MassDOT's Registry of Motor Vehicles division via Chapter 68, Section 8 of the Acts of 2011.

Effective June 30, 2015, the Route 3 North Transportation Improvements Association, a discretely presented component unit, was dissolved and its assets were transferred to MassDOT.

MassDOT has four divisions, including Highway, Rail and Transit, Aeronautics, and the Registry of Motor Vehicles, which includes the Merit Rating Board, that share administrative functions such as human resources, financial management, information technology, and planning through the shared services division, Office of the Secretary. Each division is headed by an administrator appointed by the Secretary of MassDOT.

The Enabling Act established the Massachusetts Transportation Trust Fund (MTTF) within MassDOT, into which all bridge, tunnel and highway tolls, together with certain other funds, are deposited. Transit fares of the Massachusetts Bay Transportation Authority (MBTA) may be deposited into the MTTF upon agreement of MassDOT and the MBTA.

The MTTF is to be used for operations, maintenance and capital costs related to the transportation assets under MassDOT's jurisdiction, including MBTA assets and assets of MassDOT transferred pursuant to the legislation, as well as debt service on outstanding MassDOT debt (previously held by the dissolved Massachusetts Turnpike Authority). MassDOT debt is not debt of the Commonwealth. The MTTF is not subject to appropriation and year-end balances do not revert to the Commonwealth.

Other activities transferred from the Commonwealth to MassDOT include the following: (1) the Central Artery and Statewide Road and Bridge Infrastructure Fund; (2) the Central Artery Repairs and Maintenance Trust Fund; (3) the Highway Capital Projects Fund; (4) the Federal Highway Construction Program; (5) the Motor Vehicle Inspection Trust Fund; (6) the Owner Controlled Insurance Program (OCIP) Fund related to the Central Artery/Tunnel Project and (7) various other administrative trusts transferred from the Commonwealth.

The Enabling Act contemplated that the Legislature of the Commonwealth will continue to make capital appropriations for transportation improvements and that such appropriations will continue to be funded through the issuance of Commonwealth debt by the State Treasurer. Outstanding capital spending authorizations are to be made available to MassDOT by the Commonwealth's Secretary of Administration and Finance.

The Enabling Act also established the Commonwealth Transportation Fund (CTF) as a budgetary fund of the Commonwealth for transportation-related purposes, which receives essentially the same revenues that were previously deposited into the Commonwealth's Highway Fund, including gasoline tax receipts and registry fees. The CTF is subject to appropriation by the Legislature and shall be used for transportation related expenses of the executive office of transportation or any successor agency or authority. In addition, it may pay or reimburse the Commonwealth's General Fund for payment of debt service on bonds issued by or otherwise payable pursuant to a lease or other contract assistance agreement by the Commonwealth for transportation purposes.

Legislation approved by the Governor in fiscal year 2013 provides that the CTF will also receive monies received from sales of motor vehicles and taxes imposed as excises upon sale and use at retail of motor vehicles. The following amounts are to be annually distributed from the CTF: $160,000 earmarked for the MBTA and $15,000 earmarked for the regional transit authorities. In addition, the CTF is used to pay

debt service (present and future) associated with highway maintenance and construction projects and provides the funding of MassDOT's annual operating budget. For fiscal year 2016, MassDOT received $533,021 from the CTF which was comprised of $326,021 for operations, $100,000 for debt service, $82,000 earmarked for the regional transit authorities, and $25,000 reimbursement for the cost of the operation and maintenance of the CA/T Project and CANA as authorized by Chapter 235 of the Acts of 1998. Additionally, in fiscal year 2016 MassDOT received $31,519 in snow and ice supplemental funding related to fiscal year 2015 operations and accrued for as of June 30, 2015.

Chapter 194 of the Acts of 2011 established the Transportation Infrastructure and Development Fund for "the purpose of transportation and related infrastructure projects" with the provision that not less than 50 percent shall be dedicated to supplementing construction and reconstruction of municipal ways. The primary source of funding consists of disbursements from the Commonwealth's Gaming Revenue Fund. For fiscal year 2016, MassDOT received $0.

MassDOT is a component unit of the Commonwealth and its financial statements are incorporated into the financial statements of the Commonwealth.

(b) Basis of Presentation

The accompanying financial statements of MassDOT have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

For financial reporting purposes, MassDOT has included all funds, organizations, agencies, boards and commissions considered part of the MassDOT legal entity. MassDOT has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with MassDOT is such that exclusion would cause MassDOT's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present MassDOT (the primary government) and its component units. The information pertaining to the primary government appears in footnotes 1 through 13.

Blended Component Units – Blended component units are entities that are legally separate from MassDOT, but are so related to MassDOT, that they are, in substance, the same as MassDOT because their governing board is the same as that of MassDOT or the entities provide services entirely or almost entirely to MassDOT. The Massachusetts Bay Transportation Authority (MBTA) is the only legally separate entity that meets the criteria as a blended component unit. The information pertaining to the MBTA appears in footnotes 14 through 29.

Aggregate Discretely Presented Component Units – MassDOT presents the following fifteen (15) regional transit authorities (RTAs) in the aggregate as component units in the accompanying financial statements: Berkshire Regional Transit Authority; Brockton Area Transit Authority; Cape Ann Transportation Authority; Cape Cod Regional Transit Authority; Franklin Regional Transit Authority; Greater Attleboro-Taunton Regional Transit Authority; Lowell Regional Transit Authority; Montachusett Regional Transit Authority; Metrowest Regional Transit Authority; Merrimack Valley Regional Transit Authority; Nantucket Regional Transit Authority; Pioneer Valley Transit Authority; Southeastern Regional Transit Authority; Martha's Vineyard Transit Authority; and the Worcester

Regional Transit Authority. MassDOT does not consider any of the discretely presented component units to be major.

The separately audited financial statements of MassDOT's component units may be obtained by directly contacting the various entities.

Government-Wide Financial Statements

The statement of net position and the statement of activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. MassDOT's governmental activities generally are financed through toll revenues, contract assistance from the Commonwealth, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The statement of net position presents all of the reporting entity's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net position results when constraints placed on asset use is either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is MassDOT's policy to use restricted resources first, then unrestricted resources as needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods or services provided by a given function; (2) grants and contributions that are restricted to meeting the operational requirements of a specific function and (3) grants and contributions that are restricted to meeting the capital requirements of a specific function. Other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business-type activities.

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the statement of net position, except for the residual amounts due between governmental and business-type activities.

Fund Financial Statements

MassDOT reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets and deferred outflows of resources, liabilities and deferred inflows of resources, fund equity, revenues, and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Separate financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor funds being combined into a single column.

MassDOT is not required to and does not have a legally adopted annual budget for any of its governmental funds.

(c) Measurement Focus and Basis of Accounting

The Government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements account for the general governmental activities of MassDOT. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include expenditure driven federal grants and amounts due from the Commonwealth. MassDOT considers all revenues available if they are collected within 60 days after fiscal year end. For federal expenditure driven grants, revenue is recognized when the qualifying expenditures have been incurred and other eligibility requirements are met and amounts are considered available. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities and expenditures when due. Compensated absences, claims and judgments, termination benefits, and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources.

MassDOT reports the following fund types:

Governmental Fund Types

The General Fund is the primary operating fund of MassDOT. It is used to account for and report all financial resources not accounted for and reported in another fund. The MTTF is considered the general fund for MassDOT.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Within the governmental fund types, MassDOT has established the following major fund, in addition to the MTTF:

Highway Capital Projects Fund, a capital projects fund, accounts for highway construction projects financed primarily through federal reimbursements passed through the Commonwealth and contract assistance payments received directly from the Commonwealth.

Proprietary Fund Types

Proprietary funds account for programs financed in whole or in part by fees charged to external parties for goods and services. MassDOT reports the MBTA (a blended component unit) as a major enterprise fund. MassDOT also operates one internal service fund – the Owner Controlled Insurance Program.

Revenues and expenses of proprietary funds are classified as operating or nonoperating as follows – operating revenues and expenses generally result from providing services or producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Fiduciary Fund Types

Fiduciary funds account for assets held in a trustee capacity for others that cannot be used to support MassDOT's programs.

MassDOT reports an Agency Fund, which is used to account for assets held in a custodial capacity. Agency funds do not present the results of operations or have a measurement focus.

(d) Cash and Short-Term Investments

MassDOT's participation in the Massachusetts Municipal Depository Trust (MMDT) Cash Fund is presented as cash and short-term investments (both restricted and unrestricted) in the accompanying financial statements.

MMDT is an internal investment pool that meets the criteria established under GASB 79 to report its investments at amortized cost. As such, the Authority reports its investment in MMDT at amortized which approximates the net asset value of $1.00 (one dollar) per share. MMDT has a maturity of less than one year and is not rated.

Restricted cash and short-term investments also include certain amounts restricted for use by bond indentures and other external requirements. Such amounts are held by the Treasurer in the MMDT Cash Fund as well as amounts held by bond and other trustees.

(e) Investments

Investment securities are recorded at fair value, based on quoted market price.

The Treasurer of the Commonwealth can hold certain investments on behalf of MassDOT. In the event investments are held by the Treasurer they appear as “Investments” in the accompanying financial statements. Interest earned on specific MassDOT investments would be allocated to MassDOT. As of June 30, 2016, the Treasurer held no investments on behalf of MassDOT.

Restricted investments include amounts restricted for use by bond indentures and other external requirements and include certain investments held by bond and other trustees.

For purposes of the statements of cash flows, unrestricted investments purchased with a maturity date of three months or less are considered cash equivalents.

(f) Accounts Receivable

Reimbursements due from the Commonwealth for state and federally funded construction project expenditures are reported as “Due from Commonwealth” in the financial statements and are considered 100% collectible. “Due from federal government” receivables include direct grants or reimbursements and are considered 100% collectible. “Other” receivables include rental/lease receivables and toll related receivables, including postpaid toll transactions and toll violations. Other receivables are reported net of estimated allowances for uncollectible accounts, which are based on historical trends and individual account analysis.

(g) Capital Assets

Capital assets include land, construction in progress, buildings, equipment, vehicles, software and infrastructure (e.g., roads, bridges, ramps, and other similar items). Such assets are reported in the applicable governmental or business-type activity columns of the government-wide financial statements and proprietary funds and are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Assets transferred to MassDOT from other governments (subsequent to its formation) are recorded at net carrying value (historical cost less accumulated depreciation) at the date of transfer.

Equipment, vehicles, computer equipment and software purchases that equal or exceed $50 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds $100 are capitalized. All land and non-depreciable land improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

Type of asset	Estimated useful life (in years)
Buildings	40
Infrastructure – roads, bridges, and tunnels	40
Equipment	10
Computer hardware and software	3 to 7
Vehicles	5

In the government-wide financial statements, depreciation expense is charged to the function to which the capital assets relate.

Construction in progress includes all associated cumulative costs of a constructed capital asset. Construction in progress is relieved and a depreciable capital asset is reported at the point at which an asset is placed in service for its intended use. Interest incurred during the construction phase of capital assets is not capitalized as the debt related to the construction appears on the books of the Commonwealth.

(h) Fair Value

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that are required to be made at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure the fair value.

- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices in Level 1 that are observable for the asset or liability or similar assets or liabilities either directly or indirectly through corroboration with observable market data.
- Level 3 inputs are significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(i) Other Assets

Other assets consist principally of prepaid expenses.

(j) Unearned Revenue

Unearned revenue in the governmental funds financial statements represents monies received in advance of providing goods or services in accordance with the current financial resources management focus and the modified accrual basis of accounting.

(k) Long-Term Debt

In the government-wide and proprietary funds, long-term debt is reported as liabilities in the statements of net position. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Gains and losses related to refunding transactions are presented as deferred inflows and outflows, respectively, and amortized using the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

In the governmental funds, the face amount of long-term debt is reported as other financing sources when the debt is issued. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as Office of the Secretary expenditures.

(l) Fund Balances

The following fund balance classifications describe the relative strength of spending constraints:

Nonspendable – represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact.

Restricted – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – represents amounts that can be used only for specific purposes imposed by a formal action of MassDOT's Board of Directors, which is the highest level of decision-making authority. Committed amounts may be established, modified, or rescinded only through actions approved by the Board of Directors.

Assigned – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under MassDOT's structure, this intent can be expressed by the Secretary of Transportation (and Chief Executive Officer), Chief Financial Officer and Controller. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

(m) Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at an approved rate of pay.

In the government-wide and proprietary fund statements of net position, compensated absences are recorded as an expense and liability as the benefits accrue.

For the governmental fund financial statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when they become due and payable upon retirement, termination, or death.

(n) Deferred Inflows and Outflows

MassDOT accounts for certain transactions that result in the consumption or acquisition of resources in one period that are applicable to future periods as deferred outflows and deferred inflows, respectively, to distinguish them from assets and liabilities. For fiscal year 2016, MassDOT has reported deferred outflows pertaining to its derivative instruments, deferred losses on its debt refunding transactions and pension related activities. Deferred inflows relate to deferred gains on debt refunding transactions and pension related activities.

Deferred inflows of resources in the governmental funds financial statements relate to unavailable revenue for CTF operating assistance and toll violations.

(o) Pension Benefits

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS) and additions to/deductions from SERS's fiduciary net position have been determined on the same basis as they are reported by the SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(p) Interfund Transfers

During the course of its operations, resources are permanently reallocated between funds. These transactions are reported as transfers in and transfers out.

For the year ended June 30, 2016, interfund transfers totaled $41,024, which consisted of the following:

- MassDOT transferred $41,024 from the other governmental funds' motor vehicle inspection trust fund (MVITF) to the MTTF general fund to ensure the budget included sufficient revenue for MassDOT operations. Chapter 46 of the Acts of 2013, indicates available funds may be transferred "provided, however, that expenses of the administration and implementation of the motor vehicle inspection program" are met first.

(Dollars in thousands)

(q) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(r) Implementation of New Accounting Principles

For the year ended June 30, 2016, MassDOT implemented the following pronouncements issued by the GASB:

- GASB Statement No. 72, *Fair Value Measurement and Application*
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not in the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

The implementation GASB Statement No. 72 required additional disclosures in the notes to the financial statements.

The implementation of GASB 73 and GASB 76 had no reporting impact.

(2) Deposits and Investments

MassDOT invests in the Massachusetts Municipal Depository Trust (MMDT) Cash Fund. Authorized investments for the MMDT Cash Fund include primarily U.S. government and government agency obligations, certificates of deposits, commercial paper, notes and repurchase agreements, all with maturities of one year or less. MassDOT's investment in MMDT is presented in the accompanying financial statement captions as:

Cash and short-term investments	$	79,640
Restricted cash and investments		960,553
	$	1,040,193

MassDOT has other investments held by bond and other trustees in accordance with bond indentures and other external requirements. For investments held by trustees, MassDOT has implemented investment policies which incorporate the investment protocols within the Trust Agreements.

(Dollars in thousands)

In most cases, MassDOT has chosen to limit investments to U.S. Government Treasuries or agencies of the U.S. Government. U.S. Government Agency Obligations purchased may include, but not be limited to, debt issued by: the Student Loan Marketing Association, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association.

(a) Custodial Credit Risk

At June 30, 2016, all of MassDOT's bank balances were insured and not exposed to custodial credit risk. For deposits held by MMDT Cash Fund, MassDOT had minimal exposure to custodial credit risk.

MassDOT had no custodial credit risk for investments as all investments were either insured or held in MassDOT's name.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. These investments include certain short – term cash equivalents, various long-term items and restricted assets by maturity in years. MassDOT does not have a formal policy related to interest rate risk.

MassDOT's investments at June 30, 2016 are presented below by investment type and maturity.

			Investment maturities (in years)			
			Less than			More
Investment Type		Fair value	1 year	1-5	6-10	than 10
U.S. Treasuries	$	32,047	28,996	3,051	-	-
U.S. Agencies		89,641	54,596	35,045	-	-
Money market mutual funds		111,337	111,337	-	-	-
Commercial paper		72,424	72,424	-	-	-
Guaranteed Investment Contract		25,135	25,135	-	-	-
MMDT		1,040,193	1,040,193	-	-	-
Total	$	1,370,777	1,332,681	38,096	-	-

(c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table presents the credit quality ratings of the primary government's fixed income investments at June 30, 2016:

(Dollars in thousands)

			Quality Ratings				
Investment Type		**Fair value**	**AAA**	**AA1-AA3**	**A1-A3**	**BAA1-BAA3**	**Unrated**
U.S. Treasuries	$	32,047	32,047	-	-	-	-
U.S. Agencies		89,641	-	89,641	-	-	-
Money market mutual funds		111,337	111,337	-	-	-	-
Commercial paper		72,424	-	-	72,424	-	-
Guaranteed Investment Contract		25,135	-	25,135	-	-	-
MMDT		1,040,193	-	-	-	-	1,040,193
Total	$	1,370,777	143,384	114,776	72,424	-	1,040,193

Although the MMDT Cash Fund is not rated, the cash portfolio may only invest in securities rated in one of the two highest short-term rating categories by nationally recognized statistical rating organizations or unrated securities of comparable quality. Securities rated in the highest short-term rating category (and unrated securities of comparable quality) are identified as First Tier securities. Securities rated in the second highest short-term rating category (and unrated securities of comparable quality) are identified as Second Tier securities. At June 30, 2016, credit ratings associated with the investments of the Cash Fund were either First Tier (approximately 97%) or Second Tier (approximately 3%).

(d) Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. At June 30, 2016 no investment category exceeded 5% of the total investments of the primary government.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. MassDOT was not exposed to foreign currency risk as of June 30, 2016.

(f) Restricted Cash and Investments by Fund

The following summarizes restricted cash and investments as of June 30, 2016 by the various funds and accounts established by MassDOT for debt covenant requirements and other purposes:

(Dollars in thousands)

Held by Treasurer of the Commonwealth:		
General Fund - Toll related accounts as restricted by bond covenants	$	477,583
General Fund - MTTF Other		22,589
Major Capital Projects - Statewide Road and Bridge Program		35,981
Major Capital Projects - Transportation Infrastructure and Development Fund		23,488
Other Governmental Funds - Central Artery Repairs and Maintenance		390,716
Other Governmental Funds - Motor Vehicle Safety Inspection		9,194
Other Governmental Funds - Other		1,002
Held by Bond Trustee:		
General Fund - Toll related accounts as restricted by bond covenants		324,963
Held by OCIP Trustee:		
Internal Service Fund - Workers' compensation self - insurance		5,720
	$	1,291,236

(g) Fair Value Hierarchy and Measurements

MassDOT categorizes its fair value measurements within the fair value hierarchy established by GAAP.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

Institutional Money Market Funds – Valued at fair value, which is represented by the quoted price for the fund generally $1.00 (one dollar). Institutional money market funds are generally classified as Level 1.

U.S. Treasury Securities – Securities issued by the U.S. government, its agencies, authorities and instrumentalities are valued using quoted prices, documented trade history in the security and a pricing model maximizing the use of observable inputs determined by investment managers.

- U.S. Treasury Securities consist principally of U.S. Treasury bills, notes and bonds are generally classified as Level 1 of the fair value hierarchy.
- U.S. Government sponsored enterprises securities principally of U.S. Government agency obligations including agency-issued debt, agency mortgage pass-through securities, and agency collateralized mortgage obligation (CMOs) are generally categorized in Level 1 of the fair value hierarchy.

Commercial – Commercial paper issued generally by corporate entities or financial institutions are short term investments that are generally classified as Level 1.

Derivative instruments – MassDOT’s interest rate swaps and forward delivery agreements are classified as Level 2 as valued using a market approach that considers benchmark interest rates.

(Dollars in thousands)

The following summarizes the recurring fair value measurement as of June 30, 2016:

		Fair Value	Level 1	Level 2
Investments by Fair Value Level				
Money Market Mutual Funds	$	111,337	111,337	-
U.S. Treasuries		32,047	32,047	-
U.S. Agencies		89,641	89,641	-
Commercial paper		72,424	72,424	-
Total investments by fair value level	$	305,449	305,449	-
Investment measured at amortized cost				
MMDT		1,040,193		
Guaranteed Investment Contract		25,135		
Total investments		1,370,777		
Investment derivative instruments				
Interest rate swaps (liabilities)	$	(441,211)	-	(441,211)
Forward delivery agreement		11,594	-	11,594
Total investment derivative instruments	$	(429,617)	-	(429,617)

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates such as LIBOR and SIFMA.

(Dollars in thousands)

(3) Accounts Receivable

Governmental funds accounts receivable at June 30, 2016 consisted of the following:

		Gross accounts receivable	Allowance for uncollectible	Net accounts receivable
Due from Commonwealth	$	392,621	-	392,621
Due from federal government		18,336	-	18,336
Other receivables		53,730	(10,429)	43,301
	$	464,687	(10,429)	454,258

(4) Capital Assets

Capital assets of the governmental activities consisted of the following at June 30, 2016:

		Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated:					
Land	$	982,332	4,829	1,009	986,152
Construction in progress		6,174,133	1,284,982	549,771	6,909,344
Total capital assets, not being depreciated		7,156,465	1,289,811	550,780	7,895,496
Capital assets, being depreciated:					
Infrastructure		28,451,313	560,664	–	29,011,977
Buildings		162,573	1,669	–	164,242
Equipment		123,657	50	–	123,707
Vehicles		142,584	5,293	66	147,811
Software		23,919	222	–	24,141
Total capital assets, being depreciated		28,904,046	567,898	66	29,471,878
Less accumulated depreciation for:					
Infrastructure		12,121,383	671,738	18	12,793,103
Buildings		81,088	7,001	–	88,089
Equipment		108,506	2,244	–	110,750
Vehicles		92,561	15,537	–	108,098
Software		19,545	2,173	–	21,718
Total accumulated depreciation		12,423,083	698,693	18	13,121,758
Total capital assets, being depreciated, net		16,480,963	(130,795)	48	16,350,120
Capital assets, net	$	23,637,428	1,159,016	550,828	24,245,616

(Dollars in thousands)

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Aeronautics	$	94
Highway		694,284
Office of the Secretary		1,207
Registry of Motor Vehicles		60
Rail and Transit		3,048
	$	698,693

(5) Bonds, Notes and Other Long-Term Liabilities

Long-term debt and other long-term liabilities of the governmental activities consisted of the following at June 30, 2016:

Senior revenue bonds:		Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Metropolitan Highway System:						
1997 Series A, Capital Appreciation Bonds (CAB's), 5.60% to 5.65% , issued September 24, 1997, due 2024 to 2029	$	42,007	–	–	42,007	–
Metropolitan Highway System:						
1997 Series C, Capital Appreciation Bonds (CAB's), 5.45% to 5.55% , issued September 24, 1997, due 2016 to 2023		89,136	–	13,306	75,830	12,602
Metropolitan Highway System:						
2010 Refunding, Series A, variable rate bonds, issued May 27, 2010, due 2035 to 2037		207,665	–	–	207,665	–
Borrowings related to the associated interest rate swap		3,182	–	89	3,093	94
Metropolitan Highway System:						
2010 Refunding, Series B, 3.00% to 5.00%, issued May 27, 2010, due 2011 to 2037		716,130	–	27,435	688,695	28,035
Western Turnpike:						
2011 Refunding, Series A, 2.50% to 5.00%, issued November 30, 2011, due 2017		7,375	–	–	7,375	7,375
Western Turnpike:						
2011 Refunding, Series B, 2.408%, issued November 30, 2011, due 2013 to 2017 (Federally Taxable)		26,155	–	17,280	8,875	8,875
Total senior revenue bonds		1,091,650	–	58,110	1,033,540	56,981

(Dollars in thousands)

Subordinated revenue bonds:					
Metropolitan Highway System:					
2010 Refunding, Series A, variable rate bonds, issued April 14, 2010, due 2024 to 2039	592,335	–	–	592,335	–
Borrowings related to the associated interest rate swap	11,787	–	406	11,381	425
Metropolitan Highway System:					
2010 Refunding, Series B, 3.25% to 5.00%, issued April 14, 2010,	261,220	–	–	261,220	–
Total subordinated revenue bonds	865,342	–	406	864,936	425
Total	1,956,992	–	58,516	1,898,476	57,406
Less: unamortized bond discounts	(7,703)	–	(462)	(7,241)	–
Plus: unamortized premiums	50,986	–	2,509	48,477	–
Total bonds payable	2,000,275	–	60,563	1,939,712	57,406
Other long-term liabilities:					
Workers' compensation	24,152	5,180	5,682	23,650	5,682
Judgments and claims	17,315	512	6,012	11,815	9,415
Compensated absences	43,650	2,455	1,896	44,209	25,075
Environmental remediation	1,332	1,373	268	2,437	360
Net pension liability	369,795	224,481	16,600	577,676	–
Total other	456,244	234,001	30,458	659,787	40,532
Total long-term	$ 2,456,519	234,001	91,021	2,599,499	97,938

Interest is payable semiannually on all debt, except on Capital Appreciation Bonds which is accrued over the lives of the Bonds and is payable upon maturity of the Bonds.

Revenue bonds are secured by a lien and pledge of cash and revenues derived from the Metropolitan Highway System and Western Turnpike. In addition, the Commonwealth has pledged $100,000 per fiscal year until June 30, 2039 to provide contractual assistance with repayment of the bonds. These contractual payments constitute dedicated payments from the Commonwealth that are deposited directly to the Subordinated Debt Service Fund. The Commonwealth has also pledged $25,000 per fiscal year until June 30, 2050 to provide contract assistance toward repayment of the senior bonds (until June 2037) and toward payment of subordinated bonds (until June 2039). These contractual payments constitute dedicated payments from the Commonwealth and are deposited into the Senior Debt Service Fund. The amount of pledged revenue is approximately equal to the remaining principal and interest requirements of the outstanding Metropolitan Highway System and Western Turnpike bonds.

(Dollars in thousands)

Debt service requirements, excluding derivative borrowings, are as follows:

		Principal	Interest	Total
Year ending June 30:				
2017	$	56,887	75,236	132,123
2018		40,542	74,299	114,841
2019		41,099	73,686	114,785
2020		42,819	72,626	115,445
2021		52,550	71,000	123,550
2022-2026		313,127	302,132	615,259
2027-2031		378,428	249,939	628,367
2032-2036		569,780	54,368	624,148
2037-2039		388,770	3,289	392,059
Total	$	**1,884,002**	**976,575**	**2,860,577**

As rates change, interest payments on the 2010 Bonds will vary.

Outstanding bonds that are redeemable before their scheduled due dates are as follows at June 30, 2016:

Description	Redemption date	Redemption price		Principal amount outstanding
Metropolitan Highway System:				
2010 Series A – Subordinated Debt	2024 to 2039	100%	$	592,335
2010 Series B – Subordinated Debt	2021 to 2035	100		238,210
2010 Series A – Senior Debt	2035 to 2037	100		207,665
2010 Series B – Senior Debt	2021 to 2037	100		593,285

Demand Bonds

Included in long-term debt is $207,665 of Senior and $592,335 of Subordinated variable rate demand bonds. The bonds were issued in May and April 2010, respectively, and the proceeds of the bonds were used to refund certain revenue bonds issued previously by the Massachusetts Turnpike Authority. $207,665 of the Senior bonds and $406,645 of the subordinated bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The ability of MassDOT, through its Trustee and remarketing agent, to purchase such bonds is secured through letters of credit and standby bond purchase agreements with various nationally recognized financial institutions that expire between April 2019 and April 2021. Under generally accepted accounting principles, variable rate demand obligations (VRDO's) are generally classified as current, rather than long-term liabilities if, among other things, the supporting security agreements expire less than one

(Dollars in thousands)

year after year end. All security agreements supporting MassDOT variable rate demand obligation do not expire within the twelve month period after June 30, 2016. As such, these amounts have been presented as long term, rather than current, liabilities in the accompanying financial statements.

In 2013, $185,690 of Subordinated bonds were converted to direct purchase mode to be held by the purchaser for a specific period of time and are not subject to purchase or remarketing at the demand of the holder and therefore do not require a letter of credit or standby bond purchase agreement. The direct purchase agreement on the 2010 Series A-4 Subordinated bonds in the amount of $92,845 expires in April 2019 while the direct purchase agreement on the 2010 Series A-5 bonds in the amount of $92,845 expires in April 2020.

Prior Defeasances of Debt

At June 30, 2016, the principal amounts outstanding on revenue bonds and notes that are considered defeased are as follows:

Description	Redemption date	Redemption price	Principal amount outstanding
1993 Series A Term	2017 to 2023	100%	$ 146,850

Derivative Instruments

Interest Rate Swaps/Swaptions

The former Massachusetts Turnpike Authority (the Turnpike) entered into swaptions, which upon exercise became interest rate swaps (hereinafter referred to as Swaps) to (1) lock in long-term fixed rate payments and (2) hedge changes in cash flows on variable-rate bonds due to interest rate risk. As of November 1, 2009 (MassDOT's inception), these Swaps were classified as investment derivatives, as they were not associated with a then existing asset or liability of MassDOT. During the year ended June 30, 2010, these Swaps became associated with and were determined to be effective hedges of the 2010 Series A Senior and Subordinated Revenue Bonds issued by MassDOT to refund long-term debt previously issued by the Turnpike. At June 30, 2016, the Swaps continue to be effective hedges of the refunded bonds.

Additionally, the Turnpike received premiums in connection with these Swaps upon issuance of the related swaptions. A portion of the premiums is considered borrowings and is valued separately from the Swaps. The balance of the borrowings at June 30, 2016 totals $14,474 and is presented as part of bonds payable in the accompanying government-wide financial statements.

Forward Delivery Agreement

MassDOT's bond trustee has invested certain of the debt service funds it holds through a Forward Delivery Agreement (Agreement). The Agreement, administered by Wells Fargo Bank, N.A., provides MassDOT with a guaranteed rate of return on trustee deposits held for debt payments until such time as payments are due. These deposits are recorded on MassDOT's financial statements at the fair value of the underlying securities provided by Wells Fargo through the Agreement. The Agreement qualifies as an investment derivative instrument and is reported at its fair value of $11,594 as of June 30, 2016. The credit rating of Wells Fargo Bank, N.A. at June 30, 2016, as determined by S&P, was AA minus.

(Dollars in thousands)

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2016 financial statements are as follows:

	Changes in fair value			Fair value at June 30, 2016			
	Classification		**Amount debit (credit)**	**Classification**		**Amount debit (credit)**	**Notional**
Governmental activities:							
Cash flow hedges:							
Pay-fixed interest rate swaps	Deferred outflow	$	76,184	Derivative liability	$	(431,430)	770,120
Investment derivatives:							
Pay-fixed interest rate swaps	Investment revenue		2,389	Derivative liability		(7,788)	29,880
Pay-variable interest rate basis swaps	Investment revenue		(1,783)	Derivative liability		(1,993)	100,000
Subtotal			76,790			(441,211)	
Forward delivery agreements	Investment revenue		(3,910)	Derivative asset		11,594	
		$	72,880		$	(429,617)	

The fair values of the interest rate swaps and the Forward Delivery Agreement were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the derivative, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the derivatives.

(Dollars in thousands)

The following table displays the terms of MassDOT's derivative instruments outstanding at June 30, 2016:

Derivative Item	Type	Objective	Effective Date		Notional amount	Term date	Payable swap rate	Receivable swap rate		Premiums received	Fair value at June 30, 2016
Cash flow hedges:											
1	Pay-fixed interest rate swap	Hedge interest rate risk from 2010 senior debt (Series A-1 and A-2)	7/1/2008	$	207,665	1/1/2037	4.750%	68% of 1 month LIBOR (0.31623%) (a)	$	10,375	(113,250)
2	Pay-fixed interest rate swap	Hedge interest rate risk from 2010 sub. debt (Series A-2)	1/1/2008		83,100	1/1/2037	4.875%	68% of 1 month LIBOR		4,391	(44,255)
3	Pay-fixed interest rate swap	Hedge interest rate risk from 2010 sub. debt (Series A-1)	1/1/2008		43,625	1/1/2029	5.000%	68% of 1 month LIBOR		2,312	(16,223)
4	Pay-fixed interest rate swap	Hedge interest rate risk from 2010 sub. debt (Series A-3 through A-6)	1/1/2009		341,500	1/1/2039	4.750%	68% of 1 month LIBOR		17,063	(221,167)
5	Pay-fixed interest rate swap	Hedge interest rate risk from 2010 sub. debt (Series A-7)	1/1/2009		94,230	1/1/2029	5.000%	68% of 1 month LIBOR		4,577	(36,535)
Investment derivatives:											
6	Pay-fixed interest rate swap		1/1/2009		29,880	1/1/2039	4.750%	68% of 1 month LIBOR		-	(7,788)
7	Pay-variable interest rate basis swap		10/1/2002		100,000	7/1/2029	SIFMA (0.41%) (a)	67% of 3 month LIBOR (.43825%) (a)		5,350	(1,993)
		Subtotal									(441,211)
8	Forward delivery agreement		-		-	1/1/2029	-	Fixed		-	11,594
									$		(429,617)

(a) - Rates as of June 30, 2016

Swap Payments and Related Debt

Debt service requirements of the 2010 Subordinated Debt Series A-1 through A-7 and 2010 Senior Debt Series A-1 and A-2 (2010 Bonds) and net swap payments for the cash flow hedge swaps, applying the fixed rates (4.75% – 5.00%) of the swaps and assuming 68% of 1-month LIBOR rate (0.31623%) and the variable rates (0.39% – 0.43%) on the 2010 Bonds as of June 30, 2016 are shown in the table below. There is a fixed

(Dollars in thousands)

rate (fee) component on two of the Subordinated 2010 bonds related to Direct Purchase contracts. The fixed rate (fee) is as follows: A-2's (0.75% through May 2018), A-4's (0.70% through April 2019) and A-5's (0.80% through April 2020). Such amounts are included in 2010 bonds interest amounts. The following table reflects debt service requirements through the term of the swap:

		2010 Bonds Principal	2010 Bonds Interest	Interest rate swap, net	Total
2017	$	-	4,493	35,919	40,412
2018		-	4,493	35,919	40,412
2019		-	4,493	35,919	40,412
2020		-	4,027	35,919	39,946
2021		-	3,311	35,919	39,230
2022 - 2026		50,700	15,362	177,932	243,994
2027 - 2031		127,305	13,394	154,319	295,018
2032 - 2036		245,835	11,216	128,683	385,734
2037 - 2039		376,160	2,667	31,546	410,373
	$	**800,000**	**63,456**	**672,075**	**1,535,531**

As rates change, interest payments on the 2010 Bonds and net swap payments will vary.

Risk Disclosures

Credit Risk – MassDOT is not exposed to credit risk on its interest rate swaps as none of these instruments are in an asset position. However, if interest rates and volatilities change and the fair values of the swaps were to become positive, MassDOT would be exposed to credit risk in the amount of the positive fair values. To mitigate credit risk, MassDOT's counterparties are all required to be rated in the A category or higher by the three rating agencies.

The following represents the credit ratings of the swap counterparties at June 30, 2016:

Derivative swap item	Counterparty credit rating (Moody's, S&P and Fitch)
Derivative 1	A1, A+, A+
Derivative 2	A1, A+, A+
Derivative 3	A1, A+, A+
Derivative 4	A1, A+, A+
Derivative 5	A1, A+, A+
Derivative 6	A1, A+, A+
Derivative 7	Aa2, A+, AA-

Basis Risk – MassDOT is exposed to basis risk related to its pay-variable receive-variable interest rate basis swap because the pay-variable rate is based on SIFMA and the receive-variable rate is 67% of 3 month LIBOR. MassDOT is also exposed to basis risk from cash flow hedges because the floating rate being hedged on the bonds is determined on a basis different from the floating rate on the swaps of 68% of 1 month LIBOR.

Tax Risk – If maximum tax rates were to decline, it is possible that the 68% of one month LIBOR the MassDOT receives under the 2001 UBS swap would be less than the amount needed to pay its variable rate bonds. The MassDOT and its financial advisor take this risk into consideration when analyzing the sufficiency of the hedge reserve fund balance.

Termination Risk – MassDOT or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the related variable rate bonds would no longer be hedged. Finally, if at the time of termination the swap has a negative fair value, MassDOT would be liable for a payment equal to the swaps' fair value.

(6) Pledged Revenues

MassDOT has pledged toll and certain related revenues, generated from the Metropolitan Highway System (MHS) and Western Turnpike (WT), to repay $1,884,002 in revenue bonds after deducting the amount necessary to pay all operating and maintenance costs, capital reinvestment and the maintenance of certain debt service reserve funds as required by the applicable bond covenants. The bonds were originally issued to provide financing for construction related to the MHS and WT. Certain revenue bonds associated with the original issuance were refunded (current) during April and May of 2010, for which the pledge remains. The bonds are payable through 2039 from the pledged revenues and a $100,000 annual contract assistance payment from the Commonwealth. Annual principal and interest payments (including net swap payments) on the bonds, net of the Commonwealth's $100,000 annual contract assistance payment, are expected to require approximately 25% of pledged revenues. The total principal and interest (including net swap payments) remaining to be paid on the bonds is $3,532,652. Principal and interest (including net swap payments) paid and pledged revenue received for the year ended June 30, 2016 were $170,112 and $361,018, respectively.

(Dollars in thousands)

(7) Governmental Fund Balances

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows.

Governmental Funds – Fund Balance

	MTTF (general)	Highway capital projects	Other governmental funds	Total
Nonspendable:				
Prepaid expenditures	$ 2,655	-	-	2,655
Restricted:				
Debt service	324,963	-	-	324,963
Turnpike (toll) operations and capital reinvestment	319,571	-	-	319,571
Tobin bridge and metropolitan highway system operations	89,268	-	-	89,268
Transportation infrastructure fund	-	35,967	-	35,967
Transportation Infrastructure & Development Fund	-	22,665	-	22,665
Central Artery repairs and maintenance	-	-	389,710	389,710
Motor vehicle safety inspection	-	-	8,847	8,847
Highway	-	-	477	477
Office of the Secretary	5	-	495	500
Registry	1,717	-	-	1,717
Rail and Transit	-	-	908	908
Total restricted fund balances	735,524	58,632	400,437	1,194,593
Assigned:				
Highway operations	5,400	-	649	6,049
Office of the Secretary	5,264	-	-	5,264
Registry operations	196	-	265	461
Rail and transit operations	500	-	-	500
Total assigned fund balances	11,360	-	914	12,274
Unassigned	31,595	-	(301)	31,294
Total governmental fund balances	$ 781,134	58,632	401,050	1,240,816

(8) Employee Benefit Plans

(a) Pension Plan

General Information about the Pension Plan

Plan description: Pensions are provided to eligible MassDOT employees through the Massachusetts State Employees' Retirement System (MSERS), a cost-sharing multiple-employer defined benefit pension plan as defined in GASB Statement No. 67, Financial Reporting for Pension Plans. The MSERS is governed by the Massachusetts State Retirement Board (MSRB), which consists of five members-two elected by current and active MSERS members, one by the remaining members of the MSRB, one who is appointed by the State Treasurer and the State Treasurer, who serves as ex-officio and is the Chair of the MSRB. Membership in the MSERS is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. MSERS is part of the Commonwealth of Massachusetts' reporting entity and does not issue a stand-alone audited financial report.

Benefits provided: MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. MGL establishes uniform benefit and contribution requirements for all contributory public employee retirement systems (PERS). These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, group creditable service, and group classification. Amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Contributions: Chapter 32 of the MGL assigns authority to establish and amend contribution requirements of the plan. Active plan members contribute between 5 and 11% of their gross regular compensation. The contribution rate is based on the date plan membership commences. Members hired on or after January 1, 1979, contribute an additional 2% of annual regular compensation in excess of $30,000.

The MGLs governing employer contribution requirements to MSERS are varied and vary among employers to such an extent that there is no uniform contribution method. Consequently, MSERS developed an effective contribution methodology that allocates total actual contributions among the

(Dollars in thousands)

employers in a consistent manner (based on an employer's share of total covered payroll). Any differences between the effective contribution and an employer's actual contributions are considered a nonemployer contribution from the Commonwealth. While certain nonemployer contributions are the legal responsibility of the Commonwealth and are identified by MSERS as special funding situations, MassDOT does not fall within this category. However, the Commonwealth made contributions on behalf of MassDOT totaling $2,648 during the year ended June 30, 2016. MassDOT's contributions to the pension plan for the year ended June 30, 2016 totaled $24,893.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, MassDOT reported a liability of $577,676 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 for which update procedures were used to roll forward the total pension liability to the measurement date (June 30, 2015). MassDOT's proportion of the net pension liability is based on actual contributions adjusted for nonemployer contributions (as described above). At June 30, 2015, MassDOT's proportion was 5.07498 percent, which compared to a proportion of 4.98100 percent at June 30, 2014.

For the year ended June 30, 2016, MassDOT recognized pension expense of $67,628. At June 30, 2016, MassDOT reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 16,600
Changes in Assumptions	100,042	-
Changes in proportion	10,000	-
Difference between expected and actual experience	11,418	-
Contributions made subsequent to measurement date	24,893	-
	$ 146,353	$ 16,600

Excluding contributions made subsequent to the measurement date, the amount reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(Dollars in thousands)

Fiscal Year Ending June 30		
2017	$	18,496
2018		18,496
2019		18,496
2020		36,574
2021		12,798
Total	$	104,860

Actuarial assumptions: The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

1. (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
3. In May 2015, Chapter 19 of the Acts of 2015 created an Early Retirement Incentive (ERI) for certain members of MSERS who upon election of the ERI retired effective June 30, 2015. As a result, the total pension liability of the MSERS has increased by approximately $230 million as of June 30, 2015.
4. Mortality rates were as follows:

   - Pre-retirement – reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
   - Post-retirement – reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
   - Disability – the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the target asset allocation are summarized in the following table:

(Dollars in thousands)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40%	6.9%
Core Fixed Income	13%	2.4%
Private Equity	10%	8.5%
Real Estate	10%	6.5%
Value Added Fixed Income	10%	5.8%
Hedge Funds	9%	5.8%
Portfolio Completion Strategies	4%	5.5%
Timber/Natural Resources	4%	6.6%
Totals	100%	

Discount rate: The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from employers will be made at rates equal to difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of MassDOT's proportionate share of the net pension liability to changes in the discount rate: The following presents MassDOT's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the MassDOT's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
MassDOT's Proportionate Share of the Net Pension Liability	$ 785,252	577,676	398,640

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available the Commonwealth of Massachusetts' Comprehensive Annual Financial Report.

(Dollars in thousands)

(b) Other Postemployment Benefits (OPEB)

Plan Description. MassDOT participates in the Commonwealth's OPEB plan, an agent multiple-employer OPEB plan administered by Commonwealth's Group Insurance Commission (GIC) and governed by the Trustees of the State Retiree Benefits Trust Fund. The Commonwealth's OPEB plan provides retiree health benefits to plan members and beneficiaries. The Commonwealth's OPEB plan does not issue a publicly available financial report but is included in the Commonwealth's financial statements.

Funding Policy. Plan members are required to contribute 0% to 25% of the premium cost, depending on the date of hire and whether the participant is active, retiree or survivor status. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 7.08% based on current payroll. The contribution requirements of plan members are set in General Laws. MassDOT's reimbursement to the Commonwealth for the year ending June 30, 2016 was $18,640, which equaled the required contribution.

(9) Leases

(a) Commitments

MassDOT has commitments under various operating leases. Total lease expense for the year ending June 30, 2016 was $6,311. The following is a summary of the future minimum lease payments for operating lease obligations:

Years:		Amount
2017	$	4,784
2018		4,085
2019		2,725
2020		2,466
2021		2,153
2022-2025		1,150
Total	$	17,363

Capital lease obligations are not material to MassDOT's financial statements.

(Dollars in thousands)

(b) Rental Income

MassDOT leases property and air rights to others. For the year ended June 30, 2016, MassDOT earned $55,215 in rental income. The following is a schedule by years of minimum future rental income on non-cancelable operating leases as of June 30, 2016:

Years:		Amount
2017	$	32,214
2018		31,693
2019		31,613
2020		31,594
2021		30,433
Thereafter		545,344
Total	$	702,891

(10) Risk Management

As part of its normal operations, MassDOT encounters the risk of accidental loss stemming from third party liability claims, property loss or damage, and job related injuries and illnesses. In managing these loss exposures, MassDOT applies a combination of risk management measures, including safety and loss prevention program, emergency planning, contractual risk transfer, self-insurance (internal retention) and commercial insurance. Settled claims resulting from the risks discussed above did not exceed the amount of insurance coverage in force during the year ended June 30, 2016.

In connection with the self-insurance and insurance programs, MassDOT retains part of the losses incurred and internally manages the self-insured claims. The current MassDOT self-insured retention includes (i) up to $25,000 per occurrence for automobile liability and general liability, (ii) $10,000 per loss for public official liability and privacy & network liability, (iii) $250 per loss involving damage to buildings and their contents, and (iv) $25,500 per bridge and tunnel loss. Insurance is purchased above self-insured amounts, subject to availability and reasonableness of cost. Liability insurance policies related to the former Massachusetts Turnpike Authority's exposures in prior periods (for incurred but not reported claims) have been assigned to MassDOT and remain in force.

(a) Workers' Compensation

MassDOT's fully self-insured workers' compensation program is administered by the Commonwealth of Massachusetts' Human Resources Division (HRD). HRD assumed responsibility for making fair and timely payments of indemnity and medical benefits to injured MassDOT employees, maintaining the claim and financial records and for negotiating appropriate settlements for all workers' compensation claims. This includes all legacy claims from the predecessor entities.

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred

(Dollars in thousands)

but not reported at year-end and are based on the historical cost of settling similar claims. MassDOT records such liabilities as other liabilities.

The estimated workers' compensation liability for occurrences through June 30, 2016 is $23,650. This amount is based on the results of a review performed by an independent actuarial firm retained by MassDOT, and represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2016.

Changes in the workers' compensation claims liability since July 1, 2014 were as follows:

Liability balance, July 1, 2014	$	22,145
Provision to record estimated losses		7,538
Payments		(5,531)
Liability balance, June 30, 2015	$	24,152
Liability balance, July 1, 2015	$	24,152
Provision to record estimated losses		5,180
Payments		(5,682)
Liability balance, June 30, 2016	$	23,650

(b) Owner Controlled Insurance Program (OCIP)

MassDOT has assumed responsibility for providing worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project (Project) by establishing an OCIP. A Trust, managed and administered by an independent third party (trustee), was established to protect a portion of the assets set aside with the insurance carrier to fund project liabilities.

The amounts in the Trust are restricted by its terms and cannot be used for other purposes. The insurance coverage provided by the Commonwealth ended on November 1, 2007, except for general liability completed operations coverage, which ended November 1, 2010.

These insurance programs within the OCIP are structured as retrospectively rated insurance programs with retained loss limits of $1,000 per claim, $3,000 on aggregate per occurrence for worker's compensation and $2,000 per contractor, $6,000 on aggregate per occurrence for general liability coverage. MassDOT is responsible for loss costs up to these amounts.

The estimated Claims and Judgments liability for the OCIP for occurrences through June 30, 2016 is $3,600. This amount is based on the results of a review performed by an independent actuarial firm and it represents an estimate of liabilities incurred based on past experience for claims incurred and not

(Dollars in thousands)

reported as of June 30, 2016. Any residual amount remaining at the end of the program will be transferred to the TIF.

Changes in the claims liability since July 1, 2014 were as follows:

Liability balance, July 1, 2014	$	6,500
Provision to record estimated losses		5,683
Payments		(3,083)
Liability balance, June 30, 2015	$	9,100
Liability balance, July 1, 2015	$	9,100
Provision to record estimated losses		512
Payments		(6,012)
Liability balance, June 30, 2016	$	3,600

(11) Commitments

MassDOT enters into construction contracts for roads, bridges, highways (including the Metropolitan Highway System and Western Turnpike) with various construction and engineering companies. Significant construction contracts outstanding at June 30, 2016 approximated $5,660,192.

(12) Litigation

MassDOT from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which MassDOT's liability is covered in whole or in part by insurance. MassDOT does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

On September 11, 2015, a judgment, totaling $8,215, was entered against MassDOT, for damages incurred by the plaintiff in relation to the Central Artery/Tunnel (CA/T) project. The parties continue settlement discussions; however, both parties filed notices of appeal in October 2015. This judgment has been accrued for in the accompanying financial statements.

(13) Subsequent Events

Adoption of Fiscal Year 2017 Budget

Subsequent to year-end, MassDOT's fiscal year 2017 operating budget was approved for $1,284,467. This amount will be funded from operating revenues from the CTF ($544,793), which includes potential supplemental funding for snow and ice operations ($50,000), pledged and unpledged revenues ($427,874), motor vehicle inspection trust fund ($54,607), federal funds ($49,357), and other revenues ($157,836) including departmental, leases, investment income, and reserves.

(14) MBTA - The Reporting Entity

The Massachusetts Bay Transportation Authority (the "Authority") was originally created in 1964 as a body politic and corporate and a political subdivision of the Commonwealth of Massachusetts (the Commonwealth) to finance and operate mass transportation facilities within, and, to a limited extent, outside of its territorial area of 175 cities and towns and is authorized to enter into agreements for providing mass transportation service by private companies, including railroads. The 175 cities and towns are grouped into three categories, based upon the weighting of each member's allocable percentage of population and assessments: (i) the inner 14 cities and towns; (ii) the outer 51 cities and towns; and (iii) the other 110 served communities.

Chapter 161A is referred to herein, together with Section 35T of Chapter 10 of Massachusetts General Laws, as the "Enabling Act."

The Authority is governed and its corporate powers exercised by the board of directors (the "Board of Directors" or "Board") of the Massachusetts Department of Transportation ("MassDOT"). However, during its existence, the Control Board is afforded all the powers, responsibilities, and obligations relative to the Authority that are vested in the Board.

The Control Board Act is part of the Commonwealth Fiscal Year 2016 budget, Chapter 46 of the Acts of 2015 of the Commonwealth, effective July 17, 2015. The Control Board is within the Massachusetts Department of Transportation and reports to the Secretary of Transportation (the "Secretary"). The Control Board is afforded all powers, responsibilities and obligations relative to the MBTA that are vested in the Board, with certain limited exceptions.

In addition, the Control Board may (i) establish separate operating and capital budgets each with clearly designated revenue sources and uses and establish policies and procedures to ensure that no funds are commingled between operating and capital budgets; (ii) establish one-year and five-year operating budgets beginning with Fiscal Year 2017, which are balanced primarily through a combination of internal cost controls and increased own-source revenues and which facilitate the transfer of all MBTA employees from the capital budget to the operating budget; (iii) establish five-year and 20-year capital plans that include a phased program for the complete restoration of the physical assets of the Authority including its vehicle fleet, a plan to address failings within the existing capital program and funding recommendations to meet the region's transit needs; (iv) establish a rigorous performance management system and performance metrics and targets that address, among other things, maximizing of own-source revenues, increasing ridership, reducing absenteeism, addressing vacancies and attrition, improving employee morale, achieving procurement and contracting improvements and improving customer focus and orientation; (v) review any contract for the provision of services entered into by the Authority, including contracts entered into before the establishment of the Control Board, including, but not limited to, commuter rail and paratransit service contracts, and amend those contracts, as necessary, in accordance with their terms; and (vi) establish, increase, or decrease any fare, fee, rate, or charge for any service, license or activity within the scope of the MBTA. The Control Board may: (i) reorganize or consolidate MBTA departments, divisions or entities, in whole or in part, except the Metropolitan Boston Transit Parking Corporation; (ii) establish any new departments, divisions, or entities as it considers necessary; and (iii) transfer the duties, powers, functions and appropriations of a department, division or entity, except the duties, powers, functions and appropriations of the Metropolitan Boston Transit Parking Corporation, to another. Any reorganization or consolidation that affects MassDOT shall be approved by the Board.

The Control Board consists of five members appointed by the Governor. Three members shall be members of the Board, one shall have experience in transportation finance and one shall have experience in mass transit operation. The Control Board will continue until June 30, 2018; unless extended an additional two years if, prior to June 30, 2018, the Control Board finds in a recommendation to the Governor that such two-year period is in the best interest of the public and necessary to achieve operational stability and to establish performance metrics for the Authority. Upon such recommendation, the Governor may approve the extension but in no event shall the Control Board continue beyond June 30, 2020.

Following the dissolution of the Control Board, the MassDOT Board will resume sole governance of the Authority. The Board consists of 11-members. The Secretary of Transportation shall serve ex-officio as Chair and ten other members appointed by the Governor, one of whom shall be a rider, as defined in the Enabling Act; one of whom shall have experience in the field of public or private finance; one of whom shall have experience in transportation planning and policy; one of whom shall have experience in civil engineering; one of whom shall have experience in the field of public or private finance or transportation planning and policy; one of whom shall have municipal government experience in one of the fourteen cities and towns, as defined in the Enabling Act; one of whom shall have municipal government experience in one of the fifty-one cities and towns, as defined in the Enabling Act; one of whom shall have municipal government experience in one of the other served communities, as defined in the Enabling Act; one of whom shall have municipal government experience in a city or town not part of the area constituting the authority, as defined in the Enabling Act; and one of whom shall be a representative of a labor organization selected from a list of three nominees provided by the Massachusetts State Labor Council, AFL-CIO. Four of the members, other than the Chair, shall serve for terms that are coterminous with the Governor; provided, however, that at least three of the coterminous members shall have experience in transportation policy, public finance or civil engineering and at least one of the coterminous members shall be a rider. The six remaining members appointed by the Governor shall serve for terms of four years. No more than six of the eleven directors, except the ex-officio director, shall be members of the same political party.

Under the Enabling Act, the Advisory Board, consisting of a representative of each of the cities and towns paying Assessments, shall have certain specified powers, including the power to review the Authority’s long term capital program and annual operating budget. The Enabling Act does not provide for the Authority to be a debtor under the federal bankruptcy code.

The Control Board shall appear before and provide updates to the Board not less than once per month.

On May 4, 2011, the Authority approved the establishment of Metropolitan Boston Transit Parking Corporation (“MBTPC”) a private Massachusetts nonprofit corporation organized under the provisions of Chapter 180 of Massachusetts General Laws, for the limited purpose of taking action necessary to provide for issuance of bonds on behalf of the Authority secured by the revenues from the parking system of the Authority. The MBTPC Systemwide Senior Lien Parking Revenue Bonds, Series 2011 were issued on June 22, 2011.

The Authority is the sole member of MBTPC and the Board of Directors consists of three ex officio management employees of the Authority. MBTPC has no employees. MBTPC is authorized under the Systemwide Parking Revenue Bonds Resolution (the “General Resolution”) to issue debt payable and has assumed certain rights to receive gross revenues from the parking system of the Authority under a Transfer and Disposition Agreement. The obligations of the corporation, the bonds and Transfer and Disposition Agreement are limited obligations, payable solely from the assets of MBTPC, which are pledged under the General

Resolution and recourse shall be limited to such assets. Due to its relationship with the Authority, the MBTPC is considered a blended component of the Authority.

In accordance with the requirements of Governmental Accounting Standards Board ("GASB"), Statements, of the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units, other than the MBTPC, were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of MassDOT, as the Authority is a component unit of MassDOT.

(15) MBTA - Summary of Significant Accounting Policies

(a) Basis of Financial Reporting

The Authority applies U.S. generally accepted accounting principles (GAAP) as prescribed by GASB. The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority, the reporting entity. The Authority accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing transportation services to member communities. All other revenues and expenses are reported as nonoperating revenues and expenses.

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash

Cash and cash equivalents include cash on deposit and money market funds.

(d) Investments

Investments are generally presented at fair value, other than certain investments that are recorded at amortized cost. The MBTA uses an independent pricing source to determine the fair value of investments at quoted market prices. Changes in fair value are included in nonoperating interest income in the Statement of Revenues, Expenses and Changes in Net Position. The investments recorded at amortized cost are those outlined by GASB standards and include: Investments held by the Authority in nonparticipating interest-earning investment contracts and money market investments and participating interest-earning contracts that have a remaining maturity at the time of purchase of one year or less. The Authority invests in the Massachusetts Municipal Depository Trust ("MMDT") which is an internal investment pool and is not SEC-registered. The investments held by MMDT are valued at amortized cost.

(e) Statements of Cash Flows

For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, which are reported as temporary cash investments.

(f) Restricted Cash and Investment Accounts

Certain cash and investments are segregated from operating cash due to certain internal or external restrictions as follows:

- Bond Construction Accounts – represent unexpended bond proceeds.
- Lease Deposits – represent investments (Treasury STRIPS and a collateralized investment agreement) held by trustees that will be used to make scheduled equity payments on the Authority's capital leases.
- Bond Reserve Accounts – represent funds required to be maintained by trust agreements and bond resolutions.
- Stabilization Accounts – represent funds held in accordance with statutory requirements to be used when annual revenues are projected to be less than annual expenses, or if the Authority has insufficient funds on hand to pay current expenses.
- Other Accounts – represent internally restricted funds held for capital maintenance, debt service, and other expenses.

(g) Capital Assets

All capital assets exceeding $5, with a useful life of greater than one year, are stated at historical cost. These costs include the Authority's labor costs for employees working on capital projects, related fringe benefits, and an allocated share of general and administrative costs. Ordinary maintenance and repairs are charged to expense as incurred.

Depreciation of capital assets is computed using the straight line method over the estimated useful life of the asset. The major categories of transportation property in service and their estimated useful lives are as follows at June 30, 2016:

	Estimated useful life
Ways and structures	10–60 years
Building and equipment	3–25 years

(h) Construction in Progress

During fiscal year 2016 $786,734 was expended towards the completion of major construction projects and improvements in progress. The projects and improvements completed were transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements, and purchases of new rolling stock and other equipment.

In prior years, the interest on debt used to finance major construction/procurement projects was capitalized by aggregating the interest expense incurred from the date of the debt issuance until the entire drawdown of the proceeds, then offsetting that amount with interest earned over the same period by the invested proceeds. Over the past several years, the Authority substantially completed certain major

projects whose interest costs were previously capitalized. These projects included the Automated Fare Collection System, the Greenbush Commuter Rail Line extension, the Silverline Transitway and several vehicle fleet procurements. Accordingly, in fiscal year 2016, the Authority had no material capitalized interest.

(i) Materials and Supplies

Materials and supplies are stated at average cost and include items to support the Authority's operations.

(j) Self-Insurance

The Authority is fully self-insured for various risks including workers' compensation, and injuries and damages claims. The Authority also self-insures a portion of casualty, liability claims, and property losses.

(k) Revenue Recognition

The Authority realizes revenue from a variety of different sources including but not limited to dedicated sales tax revenue, dedicated assessment revenue, state contract assistance appropriated funds, fare revenue, and nonfare revenue such as real estate, parking, and advertising revenues.

Under the Enabling Act, the Dedicated Revenues are impressed with a trust for the benefit of Authority bondholders. Furthermore, the Commonwealth covenants that while any Authority bonds or notes secured by the Dedicated Revenues are outstanding and remain unpaid, the Dedicated Revenues shall not be diverted, and, so long as the Dedicated Revenues are necessary for the purpose for which they have been pledged, the rate of the sales tax shall not be reduced below the amount of the Dedicated Sales Tax and annual aggregate Assessments of $136,027.

The dedicated assessment revenue consists of the obligation of 175 cities and towns in the Authority's expanded district to pay assessments for transportation services and benefits rendered. The Commonwealth deducts the assessments from each municipality's local aid payments; as such, these payments are received from the Commonwealth. The Authority recognizes the assessments on an accrual basis as nonoperating revenue.

The Transportation Reform Act established the Commonwealth Transportation Fund (CTF), a budgetary fund of the Commonwealth for transportation-related purposes, to receive essentially the same revenue previously deposited into the Highway Fund, including gasoline tax receipts, tunnel and highway tolls, and registry fee revenue. The CTF will also receive the sales tax receipts dedicated for transportation purposes, with a guaranteed annual payment of $275,000. The Authority receives a dedicated revenue stream consisting of the Assessments and the Dedicated Sales Tax (collectively, the "Dedicated Revenues"). The Dedicated Sales Tax is equal to the greater of the base revenue amount (as defined in the Enabling Act) and the amount raised by a 1% statewide sales tax to be funded from existing sales tax receipts, subject to adjustment under certain circumstances set forth in the Enabling Act, plus $160,000 annually. The Enabling Act was amended on October 31, 2014 to increase the Dedicated Sales Tax by $160,000 annually, starting in Fiscal Year 2015. This was intended to replace the $160,000 annual appropriation the MBTA received from Fiscal Years 2010 to 2014. The Transportation Finance Act provided funding for various transportation services and infrastructure needs within the various units of

MassDOT. The Commonwealth appropriated the amount of $155,833 from the CTF to the Authority for fiscal year 2016. This amount is subject to appropriation by the Commonwealth in future years. The Authority recognizes the state appropriated funds on an accrual basis as nonoperating revenue.

The Authority generates significant revenue from the operation of its transportation system, including both fare revenue and nonfare revenue such as those derived from real estate, parking, and advertising. Fare revenue is recorded on an accrual basis as operating revenue when fare media is purchased by riding customers through fare vending equipment and pass programs administered by the Authority. Real estate, parking, and advertising revenue is recorded on an accrual basis as operating revenue upon reporting of independent contractors managing these revenue streams on behalf of the Authority.

(l) Capital Grants and Contributions

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of transportation facilities and equipment. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

(m) Compensated Absences

The Authority accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2016 was $20,888.

(n) Lease Accounts

Lease accounts represent amounts owed by third parties that are required to be used to pay lease payments under payment undertaking agreements on the Authority's capital leases (note 19).

(o) Pension Plans

The Governmental Accounting Standards Board has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* which changed the way in which the Authority reports its participation in its defined benefit pension plans, including the MBTA Retirement Fund, the MBTA Police Association Retirement Plan and the MBTA Deferred Compensation Plan. Among the changes, GASB Statement No. 68 requires the Authority to record a liability on the statement of net position for its unfunded pension plans' obligation. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the MBTA Retirement Fund, the MBTA Police Association Retirement Plan, and the MBTA Deferred Compensation Plan, and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(p) Other Postemployment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits*, requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially

required contribution as an expense on the statement of revenue, expenses, and changes in net position when future retirees earn their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund its actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time (note 27).

(q) Environmental Remediation Costs

The Authority recognizes pollution remediation liabilities related to site investigation, planning and design, cleanup, and site monitoring in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. An operating expense provision and corresponding liability measured at current value using the expected cash flow method and in a range of possible estimated amounts has been recognized for certain pollution remediation obligations. The remediation obligation estimates are subject to change over time due to price fluctuations, changes in technology, changes in potential responsible parties, statutes or regulations, or other factors, which could result in the revision of these estimates (note 24).

(r) Derivatives

Derivative instruments are reported as assets or liabilities at fair value on the statement of net position. Changes in fair value may be reported in the statement of revenue, expenses, and changes in net position, or as deferred inflows or deferred outflows of resources in the statement of net position depending upon whether the derivative instrument qualifies for hedge accounting.

(s) Available Unrestricted Resources

The Authority's policy is to utilize available unrestricted resources prior to restricted resources.

(t) Deferred Inflows and Outflows

The Authority accounts for certain transactions that result in the consumption or acquisition of one period that are applicable to future periods as deferred outflows and deferred inflows, respectively, to distinguish them from assets and liabilities. For fiscal 2016, the Authority has reported deferred outflows related to its derivative instruments, its pension plans and the deferred losses on debt refunding transactions. The deferred inflows are related to the deferred gains on debt refunding transactions and its pension plans.

(u) Statement of Net Position

The statement of net position presents all of the Authority's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- **Net investment in capital assets** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- **Restricted net position** result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.

- **Unrestricted net position** consists of net position which does not meet the definition of the two preceding categories.

(16) MBTA - Deposits and Investments

The Authority's investment policy is to only invest in securities named in the respective trust agreements.

The Authority is authorized by its board of directors to make deposits into checking and savings accounts and to invest in direct obligations of the U.S. Treasury, its agencies and instrumentalities, bankers' acceptances, investment agreements, municipal bonds, repurchase agreements secured by U.S. government and agency obligations, and certain other investments permitted under the trust indentures.

Obligations of any agency or instrumentality of the United States of America including, but not limited to, the following may be acceptable as collateral to secure certificates of deposit or other instruments:

(A) Federal Home Loan Banks
(B) Federal Land Banks
(C) Federal Intermediate Credit Banks
(D) Bank for Cooperatives
(E) Federal National Mortgage Association
(F) Federal Farm Credit Banks

The Authority may invest in prime commercial paper of corporate issuers with a minimum quality rating of P-1 by Moody's Investors Service (Moody's) or A-1 by Standard and Poor's (S&P). These instruments can vary in maturity; however, no more than 10% of the investment funds shall be invested in the commercial paper of a single corporation.

Additionally, the Authority is authorized to invest in the Massachusetts Municipal Depository Trust (MMDT), a pooled money-market-like investment fund managed by the Commonwealth, established under General Laws, Chapter 29, Section 38A. MMDT is an internal investment pool that meets the criteria established by GASB 79 to report its investments at amortized cost. As such, the Authority reports its investment in MMDT at amortized cost which approximates the net asset value of $1.00 (one dollar) per share. MMDT has a maturity of less than one year and is not rated.

Marketable securities, which consist primarily of U.S. government instruments, are carried at fair value based upon quoted market prices. Nonparticipating interest earning contracts, including certificates of deposit and guaranteed investment contracts, are carried at cost.

(Dollars in thousands)

Deposits and investments consisted of the following amounts presented in the accompanying statement of net position at June 30, 2016:

		2016
Restricted:		
Bond construction accounts	$	228,301
Bond reserve, stabilization, and other accounts		664,361
Lease deposits		63,900
Subtotal		956,562
Unrestricted cash and temporary cash investments		272,459
	$	1,229,021

Included in bond reserve, stabilization, and other accounts at June 30, 2016 are investments in Commonwealth debt instruments with a fair value of $49,110.

In March 2016, the Board of the Authority approved the establishment of a Lockbox Capital Maintenance Fund (the "Fund") that is to be funded by the increase in fare revenue generated by the fare changes effective July 1, 2016. Resources deposited in the Fund will be used for pay-as-you-go capital improvements to the system. Spending from the Fund for any purpose other than capital improvements requires at least a two-thirds vote of the FMCB. The Fund had a balance of over $100,000.

(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be recovered. The deposits in the bank in excess of the insured amount and collateralized amount are uninsured and uncollateralized. The carrying amount of the Authority's deposits at June 30, 2016 was $220,414. The bank balance at June 30, 2016 was $218,791. Of this amount, $45,235 was exposed to custodial credit risk as uninsured and uncollateralized. These amounts reflect the Federal Deposit Insurance Corporation limit of $250 per institution at June 30, 2016.

(b) Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Authority follows the guidelines in the Authority's trust agreements, and does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(Dollars in thousands)

The Authority's fixed income investments at June 30, 2016 are presented below. All investments are presented by investment type and maturity.

	2016				
		Investment maturities (in years)			
Investment type	**Amount**	**Less than 1 year**	**1 – 3**	**4 – 8**	**More than 8**
MMDT	$ 201,572	201,572	—	—	—
Money market funds	383,846	383,846	—	—	—
Guaranteed investment contracts	1,333	—	—	—	1,333
U.S. Treasury STRIPS	63,900	—	—	—	63,900
U.S. Treasury securities	62,926	—	—	—	62,926
U.S. government-sponsored enterprises	243,817	202,162	6,208	—	35,447
Municipal bonds	49,110	—	—	4,743	44,367
Commercial paper and certificates of deposit	2,103	2,103	—	—	—
Investments	$ 1,008,607	789,683	6,208	4,743	207,973

(c) Credit Ratings

The Authority holds guaranteed investment contracts with a fair value of $1,333 at June 30, 2016. These investments are not rated.

The Authority had $175,936 in U.S. Treasury STRIPS, U.S. Treasury securities and municipal bonds as of June 30, 2016. The investments in Treasury STRIPS and other U.S. obligations are backed by the full faith and credit of the U.S. government. The municipal bonds have an implied credit rating of Aaa/AA+.

The Authority has $243,817 invested in government-sponsored enterprises as of June 30, 2016. These investments have an implied credit rating of AAaa/AA+ or they have been collateralized to AAA.

The Authority has $201,572 invested in MMDT as of June 30, 2016, a state investment pool managed by Fidelity Investments as agent for the Commonwealth and shareholders of the MMDT. MMDT is unrated.

The Authority also has $385,949 invested in money market funds, international bonds, commercial paper, and certificates of deposit as of June 30, 2016. These investments are not rated.

(d) Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investment in a single issuer. The issuers where securities at year-end exceeded 5% of the total investments, other than U.S. government obligations and mutual funds, are as follows:

	Credit rating by Moody's/S&P	2016	Percentage of portfolio
Federal National Mortgage Association	Aaa/AA+	$ 103,815	10.3%

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Authority was not exposed to foreign currency risk as of June 30, 2016.

(f) Fair Value Hierarchy and Measurements of Investments

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that are required to be made at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure the fair value.

- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices in Level 1 that are observable for the asset or liability or similar assets or liabilities either directly or indirectly through corroboration with the observable market data.
- Level 3 inputs are significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

Institutional Money Market Funds – Valued at fair value, which is represented by the quoted price for the fund – generally $1.00 (one dollar) per share. Money market funds are generally classified as Level 1.

U.S. Treasury Strips - Treasury strips are typically valued based on pricing sources with reasonable level of price transparency or derived from a treasury curve. Treasury strips are generally categorized as Level 2 of the fair value hierarchy.

U.S. Treasury Securities - Securities issued by the U.S. Government, its agencies, authorities and instrumentalities are valued using quoted prices, documented trade history in the security and a pricing model maximizing the use of observable inputs determined by investment managers.

- U.S. Treasury Securities consist principally of U.S. Treasury bills, notes and bonds are generally classified as Level 1 of the fair value hierarchy

- U.S. Government sponsored enterprises securities consist principally of U.S. Government agency obligations including agency-issued debt, agency mortgage pass-through securities, and agency collateralized mortgage obligation (CMOs) are generally categorized in Level l of the fair value hierarchy.

Municipal bonds – State and municipal bonds are generally valued based on the independent prices obtained from third party valuation services. Where prices of recently executed market transactions of similar securities and of comparable size are easily observed, those are taken into consideration for arriving at the fair value. When independent prices are available for state and municipal bonds, these are categorized as Level 2 of the fair value hierarchy.

Commercial paper and Nonnegotiable Certificates of Deposit – Commercial paper issued by corporate or government entities and nonnegotiable certificates of deposit with financial institutions are short term investments that are generally classified as Level 1.

Derivative Instruments – The Authority's interest rate swaps are classified as Level 2 as valued using a market approach that considers benchmark interest rates

(Dollars in thousands)

The Authority has the following recurring fair value measurements as of June 30, 2016:

	Fair Value	Level 1	Level 2
Investments by Fair Value Level			
Money Market Funds	$ 383,846	383,846	-
U.S. Treasury STRIPS	63,900	-	63,900
U.S. Treasury securities	62,926	62,926	-
U.S. Government sponsored enterprises	243,817	243,817	
Municpal bonds	49,110	-	49,110
Commercial paper and CDs	2,103	2,103	-
	805,702	692,692	113,010
Investments measured at amortized cost			
MMDT	201,572		
Guaranteed investment contracts	1,333		
Total Investments	$ 1,008,607	692,692	113,010
Interest rate swaps	$ 46,075	-	46,075

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Authority has no securities classified in Level 3. The investment in MMDT, an internal investment pool, is measured at $1.00 per share – the net asset value determined by the pool.

Derivative instruments (i.e., interest rate swaps) classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates

(g) Forward Delivery Agreements

The Authority has entered into several forward delivery agreements ("FDAs") with various counterparties related to its debt service and debt service reserve funds (collectively, "the Funds"). These FDAs provide for the counterparties to pay the Authority a fixed rate of return on the amounts on deposit in the Funds in exchange for the Authority's obligation to purchase securities at specified dates in the future. Under the FDAs, the Authority receives fixed return rates ranging from 4.000% to 6.281% and commits to purchase the securities at their market value on the specified future dates ranging through June 30, 20137. The credit ratings of the counterparties to the FDAs as of June 30, 2016, as determined by Standard and Poor's, were from "A" – to "AA".

The investments purchased by the Authority and held in the Funds as of June 30, 2016 have been recorded at fair value. The FDAs qualify as derivatives under GASB Statement No. 53 and have been valued at fair value as of the date of the Statement of Net Position. At June 30, 2016, the fair value of the FDAs represents an asset to the Authority. The fair value of the FDAs is not material to the Authority's financial statements.

(17) MBTA - Pledged Revenues

The Authority has pledged, as security for Sales Tax Series Bonds issued and Assessment Bonds issued, a portion of the Commonwealth sales tax (excluding meals) that is restricted for purposes of providing a dedicated revenue source to the Authority and a portion of the assessments obligated to be paid by cities and towns for which the Authority provides specified transportation services. Such bonds, issued by the Authority, provide financing for a portion of the capital improvement projects included in the Authority's approved Capital Investment Program ("CIP"), and are payable through 2041. The pledge of dedicated sales tax receipts and assessments from local communities remains in place until all bonds outstanding are retired and paid. The Authority generally issues bonds annually to fund its CIP, and these funds will continue to be pledged as security for the bonds until such time as the Authority no longer finances its CIP through the issuance of bonds secured by such pledged revenues and all such Authority bonds issued and outstanding have been retired. The total amount of dedicated sales tax revenues and assessment revenues received in fiscal year 2016 was $984,653 and $162,631, respectively a total of $1,147,284. Total annual debt service (principal and interest) paid during fiscal year 2016 on outstanding Sales Tax Series, Assessment and Prior Obligation Bonds was $470,318, representing 41% of pledged revenues.

The MBTPC pledge of dedicated parking receipts of the parking system of the Authority remains in place until all bonds outstanding are retired and paid. MBTPC began operations on June 22, 2011 and total annual debt service commenced on July 1, 2011. The debt service requirement in fiscal year 2016 was $15,373, which represents 35% of $43,559 revenue in the fiscal year 2016.

Total principal and interest remaining on Sales Tax Series Bonds, Assessment Bonds, Prior Obligation Bonds, and MBTPC Bonds outstanding as of June 30, 2016 are $8,382,061.

(18) MBTA - Net Investment in Direct Financing Lease

The Authority entered into a direct financing lease related to the underground parking garage structure located at Nashua Street and Legends Way in the City of Boston effective on June 6, 2012. The lease is for a subsurface building area with five levels of parking with a capacity for 1,275 automobiles (unaudited). The lease agreement is for a 75 year term with an initial rent payment of $50,000 paid on the commencement date of the lease. Future annual base rent payments will commence on the tenth anniversary of the lease, June 6, 2022, and continue for a 30 year period. The lessee has the right within five years following the effective date to prepay the then outstanding balance of the annual base rent, without penalty, in the amount of $21,700 plus 5% annual interest compounded from the effective date of the lease to the date of prepayment. After the fifth year of the initial term has passed, no prepayment of the then outstanding balance will be allowed or accepted. The Authority has deferred the unearned interest income and will recognize it utilizing the effective interest method over the lease term until such time as the lessee determines whether the operational impact of the exercise of the option is prudent and feasible.

(Dollars in thousands)

As of June 30, 2016 and through date of the audit opinion date, the lessee has not elected to prepay the outstanding balance of the annual base rent.

The following lists the components of the net investment in direct financing lease as of June 30:

		2016
Total minimum lease payments receivable	$	68,981
Less unearned income		(44,380)
Net investment in direct financing lease	$	24,601

(19) MBTA - Lease Obligations

(a) Capital Lease Arrangements

Transportation property and facilities under capital leases are summarized in the capital assets note 20.

The following is a schedule by year of future minimum lease payments under the Authority's capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2016:

Fiscal year(s):		
2017	$	4,110
2018		3,499
2019		596
2020		—
2021		—
2022–2026		—
2027–2031		63,900
		72,105
Less amount representing interest		(123)
Present value of net minimum lease payments		71,982
Less current principal maturities		(4,026)
Obligations under capital leases	$	67,956

(Dollars in thousands)

The liability for these leases changed in 2016 as follows:

Outstanding at June 30, 2015		65,673
Net change in obligation		6,309
Outstanding at June 30, 2016	$	71,982

(b) Operating Leases

As of June 30, 2016 the Authority, as lessor, did not have any outstanding operating lease obligations.

In June 2016, the Authority, as lessor, entered into a 99-year lease with a third party for space at the South Station for an annual lease payment of $1,000 plus contractual increases over the life of the lease.

(Dollars in thousands)

(20) MBTA - Capital Assets

Capital assets at June 30, 2016 are as follows:

	Beginning balance June 30, 2015	Increases	Decreases	Ending balance June 30, 2016
Capital assets not being depreciated:				
Land	$ 375,975	8,980	9	384,946
Construction work in progress	970,116	786,734	524,619	1,232,231
Total capital assets not being depreciated	1,346,091	795,714	524,628	1,617,177
Capital assets being depreciated:				
Ways and structures	10,662,292	195,466	-	10,857,758
Buildings and equipment	2,843,680	210,494	31,374	3,022,800
Buildings and equipment included in capital lease	409,782	-	1,195	408,587
Total capital assets being depreciated	13,915,754	405,960	32,569	14,289,145
Less accumulated depreciation for:				
Ways and structures	4,289,957	249,288	-	4,539,245
Buildings and equipment	1,802,585	172,375	31,374	1,943,586
Buildings and equipment included in capital lease	280,657	4,479	1,195	283,941
Total	6,373,199	426,142	32,569	6,766,772
Other capital assets, net	7,542,555	(20,182)	-	7,522,373
Capital assets, net	$ 8,888,646	775,532	524,628	9,139,550

(21) MBTA - Long-Term Debt

(a) Bonds Payable

The Enabling Act authorizes the Authority to issue general obligation debt, revenue, or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts, or other assets or funds of the Authority beginning July 1, 2000.

Debt issued by the Authority prior to and outstanding as of July 1, 2000 (the "Prior Obligations") is backed by the full faith and credit of the Commonwealth to the extent revenues collected by the Authority are insufficient to pay the debt, until the debt is paid off. Principal and interest payments on that debt were subsidized by the Commonwealth prior to June 30, 2000. As of June 30, 2016, Prior Obligations in the amount of $206,465 are outstanding.

Debt issued by the Authority after June 30, 2000 (new debt) will not be supported by the Commonwealth's guarantee. Additionally, the Authority is not expected to receive any principal or interest subsidies from the Commonwealth for the repayment of the prior obligations and new debt of the Authority, unless authorized by special legislation.

On October 14, 2015, the Authority issued Senior Sales Tax Series 2015A and Series 2015B for $358,405. Principal is payable on July 1, 2019 through July 1, 2045. The first interest payment on these bonds was due on January 1, 2016. The Series 2015A sales tax bonds were issued for use to finance systemwide improvements, vehicle replacements and other capital projects. The 2015B sales tax bonds were issued to refund the remainder of 2006 Series C Senior Sales Tax Bonds, the remainder of 2005 Series A Assessment Bonds, and to partially refund the 2008 Series A Assessment Bonds.

Principal on the 2015 Series A Sales Tax is payable beginning July 1, 2022 and on each July 1 through July 1, 2045. Interest on these bonds is paid semiannually on July 1 and January 1.

Principal on the 2015 Series B Sales Tax is payable beginning July 1, 2019 and on each July 1, 2024 through July 1, 2035 except for July 1, 2031 and July 1, 2034. Interest on these bonds is paid semiannually on July 1 and January 1.

GTS bonds, all issued prior to July 1, 2000, are payable in annual installments on March 1 and interest is payable semiannually on March 1 and September 1. The GTS bonds were issued to provide funds for the financing of the Authority's transportation properties.

No commercial paper was issued by the Authority during fiscal year 2016, excluding rollovers. The Authority paid off $27,050 of commercial paper notes during fiscal year 2016. The balance of $67,300 was outstanding as of June 30, 2016. At June 30, 2016, the total commercial paper notes included CP Sales Tax Series A in the amount of $29,775 with a weighted average daily rate 0.156214% and CP Sales Tax Series B in the amount of $37,525 with a weighted average daily rate 0.124547%.

(Dollars in thousands)

The Authority's outstanding bonds payable at June 30, 2016 are as follows:

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2016	Due in fiscal year 2017
General transportation system bonds:				
1991 Series A Bonds dated November 1, 1991	2021	7.00%	$ 36,165	—
1992 Series B Refunding Bonds dated December 1, 1992	2016	6.20%	2,925	965
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25-7.00%	—	—
1998 Series C Bonds dated November 1, 1998	2022	5.25-5.75%	5,955	1,505
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	161,420	7,160
			206,465	9,630
Revenue bonds:				
2003 Series A Senior Sales Tax Bond dated January 29,2003	2021	4.00%-5.25%	101,130	5,945
2003 Series C Senior Sales Tax Bond dated February 3, 2004**	2023	Variable	152,090	22,425
2004 Series A Senior Sales Tax Bond dated February 3, 2004	2016	5.00%-5.25%	7,315	7,315
2004 Series B Senior Sales Tax Bonds dated March 9, 2004	2030	3.00%-5.25%	343,445	42,000
2004 Series C Senior Sales Tax Bonds dated December 22, 2004	2024	3.00%-5.50%	220,355	57,940
2005 Series A Senior Sales Tax Bonds dated March 24, 2005	2031	5.00%	735,450	—
2005 Series A Assessment Bonds dated September 8, 2005	2035	3.20%-5.00%	—	
2005 Series B Senior Sales Tax Bonds dated December 21, 2005	2029	3.40% – 5.50%	91,955	60
2006 Series A Senior Sales Tax Bonds dated March 2, 2006	2034	5.25%	238,850	—
2006 Series B Senior Sales Tax Bonds dated December 5, 2006	2023	5.00% – 5.25%	163,010	15,050
2006 Series C Senior Sales Tax Bonds dated June 28, 2006	2027	4.00%-5.00%	8,410	—
2006 Series A Assessment Bonds dated September 13, 2006***	2035	Variable	161,340	—

(Dollars in thousands)

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2016	Due in fiscal year 2017
Revenue bonds:				
2007 Series A-1 Senior Sales Tax Bonds dated May 24, 2007	2034	5.25%	205,675	—
2007 Series A-2 Senior Sales Tax Bonds dated May 24, 2007	2037	Zero Coupon	204,367	—
2008 Series A-1 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083%-3.834%	130,275	18,990
2008 Series A-2 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083%-3.834%	121,415	570
2008 Series B Senior Sales Tax Bond dated April 30, 2008	2033	3.00%-5.25%	43,570	8,380
2008 Series A Assessment Bond dated November 13, 2008	2034	4.00% – 5.25%	153,870	—
2009 Series B Senior Sales Tax dated February 26, 2009	2018	3.00% – 5.00%	39,365	—
2009 Series D Senior Sales Tax dated October 29, 2009	2019	3.00% – 5.00%	14,445	—
2010 Series A Senior Sales Tax dated February 17, 2010****	2030	Variable	80,255	80,255
2010 Series B Senior Sales Tax dated April 6, 2010	2035	2.00% – 5.00%	72,470	1,415
2010 Series C Senior Sales Tax dated December 8, 2010	2020	5.00%	63,450	—
2012 Series A Assessment Bond dated June 21, 2012	2024	5.00%	404,805	1,985
2014 Series A Sales Tax Bonds dated April 23, 2014	2045	4.00% – 5.00%	200,000	5,000
2015 Series A Sales Tax Bonds dated October 14, 2015	2046	2.00%- 5.00%	177,855	—
2015 Series B Sales Tax Bonds dated October 14, 2015	2036	4.00% – 5.00%	180,550	—
			4,315,717	267,330
Metropolitan Boston Transit Parking (MBTPC) Bonds:				
2011 Series A MBTPC dated June 22, 2011	2041	4.00% – 5.25%	304,585	—
			304,585	—

(Dollars in thousands)

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2016	Due in fiscal year 2017
Revenue Build America (BABs)				
Bonds:				
2009 Series C Senior Sales Tax				
dated October 29, 2009	2039	4.75% - 5.57%	$ 218,300	-
2010 Series D Senior Sales Tax				
dated December 8, 2010	2040	4.546% - 5.869%	210,000	-
			428,300	-
Commercial Paper	2016	0.12% - 0.16%	67,300	67,300
Total bond and notes payable			5,322,367	344,260
Less current maturities			(344,260)	
Total long-term			4,978,107	
Plus unamortized bond premiums/discounts, net			333,824	
Total long-term bonds payable			$ 5,311,931	

* The bonds were issued as variable rate demand obligations ("VRDOs") and bear interest at a variable rate. As of September 28, 2011, the 2000 Series VRDO was split into 2000 Series A-1 VRDO ($94,000) and 2000 Series A-2 VRDO ($94,000). The interest rates as of June 30, 2015 for the 2000 Series A-1 are 0.13%; 0.06% for the 2000 Series A-2 VRDO; 0.06% for the 2008 Series A-1 Senior Sales Tax Bond, and 0.09% for the 2008 Series A-2 Senior Sales Tax Bond.

** The 2020 maturity in the amount of $25,005 is variable rate debt based on the MUNI-CPI rate, plus 79 basis points.

*** The 2024 maturity in the amount of $19,260 and the 2025 maturity in the amount of $5,000 is variable debt based on the MUNI-CPI rate, plus 123 basis points.

**** This bond was issued as a windows VRDO and its variable interest is based on the SIFMA rate, plus 9 basis points. As of June 30, 2016 the variable interest is based on the SIFMA rate, plus 20 basis points. The Authority classifies these bonds short-term, as it does not have a standby purchase agreement and/or a letter of credit providing liquidity support for the remarketing window. The Authority does not foresee the bond being called.

(Dollars in thousands)

The principal and interest maturities of the bonds and notes payable as of June 30, 2016 are as follows:

		Principal	Interest
Fiscal year(s):			
2017	$	344,260	252,676
2018		217,105	242,310
2019		258,290	230,216
2020		266,155	216,787
2021		278,195	202,919
2022–2026		1,265,133	858,316
2027–2031		1,123,965	576,322
2032–2036		849,419	328,759
2037–2041		538,586	136,863
2042–2046		181,259	14,526
Total	$	5,322,367	3,059,694

A summary roll forward of bonds payable for the year ended June 30, 2016 is as follows:

		2016					
		Balance 2015	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2016
GTS	$	229,915	—	23,450	—	—	206,465
Revenue		4,271,457	358,405	127,070	196,415	9,340	4,315,717
BABs		428,300	—	—	—	—	428,300
Commercial Paper		94,350	—	27,050	—	—	67,300
MBTPC		304,585	—	—	—	—	304,585
	$	5,328,607	358,405	177,570	196,415	9,340	5,322,367

The following funds are included in restricted assets at June 30, 2016 in connection with the Authority's revenue bond trust agreements and bond resolutions:

		2016		
		Assessment bonds	Sales tax bonds	MBTPC bonds
Debt service	$	46,707	317,532	8,639
Debt service reserve		30,440	202,795	13,559
	$	77,147	520,327	22,198

The minimum required balance in the debt service reserve funds at June 30, 2016 was $189,477 for the Sales Tax Series Bonds and $29,702 for the Assessment Bonds, respectively. The minimum required balances in the debt service reserve funds at June 30, 2016 for MBTPC Bonds were $12,294. The

Authority has complied with its financial bond covenants by maintaining sufficient cash and investments in the debt service reserve funds.

In order to take advantage of low interest rates and easily accessible short-term capital markets, the Authority issues commercial paper to raise funds in order to meet its capital needs. The Authority has a $250,000 commercial paper program in total of which $150,000 is administered by JP Morgan and $100,000 by Barclays Capital Inc. The Authority's commercial paper program (or BANs) has been assigned short-term ratings of P 1 and A 1+ by Moody's and S&P, respectively. The Authority had $67,300 in outstanding commercial paper as of June 30, 2016.

(b) Debt Refundings

On October 14, 2015, the Authority issued Senior Sales Tax Series 2015A and Series 2015B for $358,405. Principal is payable on July 1, 2019 through July 1, 2045. The first interest payment on these bonds is January 1, 2016. The Series 2015A sales tax bonds were issued for use to finance systemwide improvements, vehicle replacements and other capital projects. The 2015B sales tax bonds, along with other funds on hand, were issued to refund $57,880 of 2006 Series C Senior Sales Tax Bonds, $55,500 of 2005 Series A Assessment Bonds, and $83,035 of 2008 Series A Assessment Bonds.

The proceeds of the 2015B bonds of $180,550 plus a premium of $31,086 were deposited into an irrevocable trust to execute an 'in-substance' defeasance of the previously outstanding 2005 Series A Assessment bonds ($55,500); 2006 Series C Senior Sales Tax bonds ($57,880); and 2008 Series A Assessment bonds ($83,035). The cash flow from the 2015B (refunding bonds) was $294,632 and the cash flow from the refunded bonds was $325,954 resulting in a cash flow savings of $31,322. The present value savings on the refunding was $19,405. The accounting loss on the refunding of $11,887 was recorded as deferred outflow and will be amortized over the future life of the bonds.

In prior years, the Authority defeased in substance several GTS, Sales Tax Series, and Assessment Series Bonds by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2016, $422,655 of all bonds are considered defeased in-substance and are still outstanding.

(c) Derivative Instruments

The Authority has entered into interest rate swaps. When the Authority has entered into Swaps, the Authority has done so in order to: (1) provide lower cost fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long-term fixed rate returns on invested assets in its required reserve funds; (3) create synthetic refinancing with cash flow savings realized as the Authority designates; or (4) create a synthetic fixed rate for the purchase of vehicular fuel for fixed periods of time rather than being exposed to unpredictable variations in fuel prices on the spot market. All Swaps for which the Authority received an upfront payment are considered hybrid instruments. The premiums/up-front payments are reported as a borrowing and included in the long-term liability unearned revenue on the statements of net position and the Swaps are reported based on the "at the market" rates at the time of execution.

(Dollars in thousands)

Summary of Swap Transactions by Category

Synthetic Fixed Rate Swap Transactions

Derivative item	Type	Objective	Effective date	Current notional amount	Term. date	Fixed payable swap rate	Variable receivable swap rate	Fair value at June 30 2016
Cash flow hedges:								
3	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Senior Sales Tax Series 2003 C	February 2004	25,005	2020	4.00	CPI+79 basis points	(1,565)
8	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2010 A	March 2009	79,645	2030	6.00	SIFMA	(34,892)
								(36,457)
Investment derivatives:								
2	Pay – fixed (a) interest rate swap	Originally to hedge changes in cash flows on variable rate debt	February 2003	75,480	2022	5.00	SIFMA	(9,618)
								(9,618)
								$ (46,075)

(a) The 2003 B-1 and 2003 B-2 hedged bonds were legally redeemed in March 2008 through the issuance of commercial paper

The aggregate fair value balance of the derivative instruments at June 30, 2016 is $(46,075) and is reflected on the Authority’s statements of net position as a liability for derivative instruments. Of this liability, $(36,457) at June 30, 2016, is offset by deferred outflows of resources from derivative instruments that qualify for hedge accounting. As of June 30, 2016, the Authority determined that the investment derivative instrument does not meet the criteria for hedge accounting. Accordingly, the change in fair value of these swaps is reported within nonoperating revenue (expense) on the statements of revenue, expenses, and changes in net position.

The fair values of the interest rate swaps were calculated by a third-party derivative advisor where each leg of the swap is valued utilizing the present value of expected future cash flows based on the contractual terms of each swap or an “at the market rate” in accordance the requirements of Governmental Accounting Standards Board (“GASB”), Statements. Expected cash flows are discounted using the U.S. Dollar Swap curve provided by independent third parties such as Bloomberg.

During 2016 the Authority terminated several swaps by making net payments to the counterparties totaling $73,732 (a payment of $78,865 offset by a receipt of $5,133). This amount is presented as nonoperating expense in the statement of revenues, expenses and changes in net position.

(Dollars in thousands)

Swap Payments and Associated Debt

As of June 30, 2016, debt service requirements of the 2003 Series C Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming the CPI rate of 1.75% plus 79 basis points through the term of the swap, are as follows. As rates vary, variable rate interest rate payments on the 2003 Series C bonds and net swap payments will vary.

Fiscal year(s) ending June 30		2003 Series C Senior Sales Tax Bonds principal	2003 Series C Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2017	$	—	798	398	1,196
2018		—	798	398	1,196
2019		—	798	398	1,196
2020		—	798	398	1,196
2021		25,005	798	398	26,201
	$	25,005	3,990	1,990	30,985

As of June 30, 2016, debt service requirements on the 2010 Series A Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 5.61% and assuming SIFMA index rate of 0.417% and the variable rate on the 2010 Series A Senior Sales Tax Bonds is 0.41% plus 20 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2010 bonds and net swap payments will vary.

Fiscal year (s) ending June 30		2010 Series A Senior Sales Tax Bonds principal	2010 Series A Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2017	$	—	486	4,142	4,628
2018		—	486	4,142	4,628
2019		—	486	4,142	4,628
2020		—	486	4,142	4,628
2021		—	486	4,142	4,628
2022–2026		19,590	2,252	19,196	41,038
2027–2031		60,055	775	6,601	67,431
	$	79,645	5,457	46,507	131,609

(Dollars in thousands)

Risk Disclosure

Credit Risk – Because all of the Authority's Swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of exposure to this risk at the reporting date is the fair value of the swaps in an asset position, as shown in the columns labeled fair value in the tables above. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties for long-term swaps are rated in the A category by both Moody's and S&P. To further mitigate credit risk, the Authority's swap documents require counterparties to post collateral for the Authority's benefit if they are downgraded below a designated threshold.

The following represents the credit ratings of the counterparties as of June 30, 2016:

Derivative swap item	**Counterparty credit rating Moody's/S&P**
Derivative 2	Aa3/A+
Derivative 3	A1/A
Derivative 8	Aa3/A+

Basis Risk – The Authority is exposed to basis risk when the floating rate the Authority receives under the swaps is different from the variable rate on the associated bonds. Should this occur, the expected savings may not be realized. Refer to tables above for basis for swap and bond variable rates and the actual rates in place at year-end.

Termination Risk – The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards, the Authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. If at the time of the termination a swap has a negative value, the Authority would be liable to the counterparty for a payment equal to the fair value of such swap.

Rollover Risk – Rollover risk is the risk that occurs when the term of the swap does not match the term or maturity of the debt associated with the hedge. The Authority is subject to rollover risk for those swaps that hedge its variable rate demand obligations in the event the Authority is not able to remarket those instruments as anticipated.

(d) Demand Bonds

The 2000 Series and 2008 Series A bonds were issued as VRDOs. MBTA's ability to purchase these bonds is secured through Standby Bond Purchase Agreements ("SBPAs") with nationally recognized financial institutions that expire in March 31, 2017 and September 28, 2018. Under generally accepted accounting principles, VRDOs are generally classified as current liabilities if, among other things, the supporting security agreements expire in less than one year of the date of the financial statements. Although the 2008 Series VRDOs are supported by a SBPA that expires on March 31. 2017, the bonds are also subject to a 'Mandatory Tender for Purchase' requirement that becomes effective prior to the

(Dollars in thousands)

expiration of the SBPA. As such, these amounts have been presented as long term, rather than current, liabilities in the accompanying financial statements.

(22) MBTA - Commitments and Contingencies

(a) Capital Investment Program ("CIP")

The Authority's continuing CIP for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following tables show, as of June 30, 2016, capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources:

Funding source		Approved project costs	Expenditures through June 30, 2016	Unexpended costs
Federal grants	$	7,898,863	7,484,219	414,644
State and local sources		3,999,272	2,987,184	1,012,088
Authority bonds		6,209,086	5,795,649	413,437
Total	$	18,107,221	16,267,052	1,840,169

The terms of the federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and comply with the Equal Employment Opportunity and Affirmative Action programs required by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU"). Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Transit Administration ("FTA"). In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

Other cases and claims include disputes with contractors and others arising out of the Authority's CIP. In the opinion of the general counsel to the Authority, amounts reasonably expected to be paid by the Authority would be within the scope of grant funds and other funds available to the Authority for the respective projects.

The Authority has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars, and other transportation equipment. Unpaid amounts under these contracts total approximately $1,309,893 at June 30, 2016.

(b) Legal and Other

The Authority is involved in numerous lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the general counsel to the Authority, payments of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

(Dollars in thousands)

The Authority participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of the Authority's management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

(23) MBTA - Risk Management

The Authority is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment, and employee health insurance claims.

Buildings are fully insured to the extent that losses exceed the self-insured retention of $2,500 for buildings valued over $25,000 and the self-insured retention of $1,000 for buildings valued under $25,000 effective March 1, 2014. The Authority is self-insured for workers' compensation, unemployment claims, vehicle damage and loss, and health insurance. The Authority paid 85% of all health premiums up to a maximum of $200 per individual for all Blue Cross plans and $100 per individual for Harvard and Tufts plans who remained under the self-insured health plans until June 30, 2015. The Authority pays 75% to 80% of all healthcare premiums for active employees within the health insurance plans administered by the Group Insurance Commission of the Commonwealth ("GIC"). The Authority pays 80% to 90% of all health premiums for retired employees within the health insurance plans administered by the GIC. Stop-loss insurance is carried on health insurance claims in excess of these amounts per individual per illness until December 31, 2015.

The Authority self-funds a $7,500 per occurrence deductible for general liability. The Authority has a program of excess public liability insurance to provide for $67,500 of layered coverage on a per occurrence and annual aggregate basis. In the opinion of the general counsel to the Authority, payments of claims by the Authority for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

During fiscal year 2016, expenditures for claims and judgments, excluding workers' compensation, and health and life, were $9,738. Expenses for claims related to workers' compensation were $13,349, and expenditures for the self-insured health plans were $62,976 for the year ended June 30, 2016.

The requirements of Governmental Accounting Standards Board ("GASB"), Statements require that liabilities for self insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities, which consist of workers' compensation, health claims, and injuries and damages (legal claims) as accrued expenses as of June 30, 2016 and 2015. Changes in the self insurance liabilities in fiscal years 2016 and 2015 were as follows:

		2016	2015
Liability, beginning of year	$	119,498	111,430
Provisions for claims		79,019	104,948
Payments		(86,063)	(96,880)
Liability, end of year	$	112,454	119,498

(Dollars in thousands)

(24) MBTA - Environmental Remediation Obligations

Effective July 1, 2008, the Authority implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Statement No. 49 identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation. The statement requires a government entity to estimate its expected outlays for pollution remediation if it knows that a site is polluted based on specific recognition triggers and disclose those obligations associated with cleanup efforts.

The Authority is responsible for the cleanup of leaking fuel storage tanks in facilities owned by the Authority, or parcels of land acquired as part of transit expansions. The Authority is currently managing six active storage tank sites in various stages of remediation and monitoring. The Authority has a number of years' experience in managing these cleanups and the assessment of costs for these types of cleanups. The amount of the estimated pollution remediation liability assumes there will be no major increases in the cost of providing these cleanup services.

The Authority is responsible for a facility where Polychlorinated Biphenyls ("PCBs") have been detected in the building caulk. Caulk containing PCBs is frequently found in buildings built or renovated between 1950 and 1978. PCB containing caulk is no longer manufactured and is required to be removed under federal regulations. The maintenance building was found to contain such PCB containing caulk and as a result, a remediation program is now underway as part of the rehabilitation of the building.

During the year ended June 30, 2016, the following changes occurred in the liabilities:

	Balance as of July 1, 2015	Additions/ revisions	Payments/ revisions	Balance as of June 30, 2016
Storage tank remediation sites	$ 13,102	—	595	12,507
Contamination soil sites	13,000	—	—	13,000
Sites with PCB remediation	10,500	—	1,796	8,704
Vapor intrusion 21E	1,500	—	—	1,500
	$ 38,102	—	2,391	35,711

The payments for remediation costs combined with revised cost completion estimates totaling $2,391 in fiscal year 2016 is recorded in the other operating expenses in the statements of revenue, expenses, and changes in net position. The accrued total liability as of June 30, 2016 included in the long-term accrued liabilities in the statement of net position was $35,711.

(25) MBTA - Commuter Railroad

Under the Authority's Enabling Act, Massachusetts General Laws, Chapter 161A, Section 3(f), the Authority may enter into agreements with private transportation companies, railroads, and other concerns providing for joint or cooperative operation of any mass transportation facility and for operation and use of any mass transportation facility and equipment for the account of the Authority.

On February 5, 2014 the Authority and Keolis Commuter Services ("Keolis") entered into an operating agreement effective July 1, 2014 to provide commuter railroad service over the Authority's rail lines. The

contract is for a period of eight (8) years, through June 30, 2022. The Authority has a fixed base contract amount of $2,686,342 over the eight-year term of the agreement. The contract also has a provision for an extension period, comprised of the option to extend for no less than two but no greater than four years extension. The fixed base contract over the term of the contract and four-year extension period termination date of June 30, 2026 is $4,258,131.

(26) MBTA - Retirement Plans

The Authority provides retirement benefits to employees through six defined benefit retirement plans and one defined contribution plan: The MBTA Retirement Fund, the MBTA Police Association Retirement Plan, the MBTA Deferred Compensation Plan, the MBTA Executive Deferred Compensation Plan, the MBTA Executive Deferred Compensation Annuity Plan, the MBTA Excess Benefit Annuity Plan and the MBTA Deferred Compensation Savings Plan.

The MBTA Retirement Fund, a single-employer plan, covers all employees except the MBTA police, who are covered separately, and certain executives who elect coverage under an alternate plan. The MBTA Retirement Fund and the MBTA Police Association Retirement Plan, a single-employer plan, both provide retirement, disability, and death benefits to their members. The MBTA Retirement Fund issues separately audited financial statements that may be obtained by writing to One Washington Mall, Boston, Massachusetts 02108, or by calling (617) 316-3800. The MBTA Police Association Retirement Plan also issues separately audited financial statements that may be obtained by writing to the Board of Directors, MBTA Police Association Retirement Plan, P.O. Box 2215, Hyannis, Massachusetts 02601.

The MBTA Deferred Compensation Plan, a single-employer plan, provides supplemental pension benefits for certain Local 453, Steelworkers, Transit Employee Administrators (collective bargaining units) and executive employees after retirement. Employees may participate in both the MBTA Retirement Fund and the MBTA Deferred Compensation Plan. The MBTA Deferred Compensation Plan is unfunded and does not issue separately audited financial statements.

The remaining defined benefit plans are single employer plans that are unfunded and do not issue separately audited financial statements. These plans collectively have less than ten active and retired participants. A copy of the actuarial report for any of these retirement plans can be obtained by writing to the Office of the Chief Financial Officer, MBTA, Ten Park Plaza, Boston, Massachusetts 02116.

Employees covered by benefit terms. At June 30, 2016, the following employees were covered by the benefit terms:

(Dollars in thousands)

	MBTA Retirement Fund	**MBTA Police Association Retirement Fund**	**MBTA Deferred Compensation Plan**
Retired employees or beneficiaries receiving benfits	6,472	88	911
Active employees	5,885	261	686
Inactive employees entitled to, but not yet receiving benefits	88	14	—
Totals:	**12,445**	**363**	**1,597**

(a) Funding Policy and Annual Pension Cost

The pension agreements between the Authority and Local 589, dated July 1, 2014 for the MBTA Retirement Fund and the MBTA Police Association dated June 30, 2003, designates that the board of trustees of each retirement plan establish the contribution requirements; however, the Authority may amend these requirements.

The historical MBTA Retirement Fund contribution rates are as follows:

		Contribution Percentage		
Valuation Date	**Effective Date**	**Employer**	**Employee**	**Total**
12/31/2013	7/1/2014	16.0511%	5.7989%	21.8500%
12/31/2014	7/1/2015	16.0286%	5.7914%	21.8200%
12/31/2015	7/1/2016	18.0386%	6.4614%	24.5000%

Actual contributions made in were in accordance with these contribution requirements.

(Dollars in thousands)

The historical MBTA Police Association Retirement Plan contribution rates are as follows:

		Contribution Percentage		
Valuation Date	**Effective Date**	**Employer**	**Employee**	**Total**
12/31/2013	7/1/2014	13.8900%	8.5100%	22.4000%
12/31/2014	7/1/2015	14.6200%	8.3600%	22.9800%

Actual contributions were in accordance with the actuarial requirements of the December 31, 2013 valuation. Actual contributions of 12.67% (employer) and 7.28% (employee) were less the actuarial contribution requirements from the December 31, 2014 valuation.

Contributions are not required to be made for the MBTA Deferred Compensation Plan. Rather benefit payments are made on a “pay as you go” basis.

Net Pension Liability

The Authority’s June 30, 2016 net pension liability for each retirement plan was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that same date.

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Pension	**MBTA Retirement Fund**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Actuarial assumptions:			
Inflation rate	3.00%	3.00%	3.00%
Salary increases	4.00	3.50	4.00
Investment rate of return	8.00*	7.00*	3.20*

*Net of pension plan investment expense, including inflation

For the December 31, 2015 actuarial valuation, mortality rates are used for all active employees and were based on the RP-2000 Blue Collar Mortality Tables with generational projection using the Scale BB. The RP-2000 Blue Collar Tables for Health Males projected by Scale BB generationally are the basis for all retirees and deferred vested participants. The RP-2000 Blue Collar Tables for Health Females projected by Scale BB generationally are the basis for all beneficiary participants. The RP-2000 Tables for Disabled Lives projected by Scale BB generationally are used for the period after disability retirement. Among pre-retirement deaths, 7.5% are assumed to qualify for accidental death benefits.

(Dollars in thousands)

The actuarial assumptions used in the December 31, 2015 valuation for the MBTA Retirement Fund were based on the results of an actuarial experience study for the four-year period ending December 31, 2014. There was no separate experience actuarial study performed for the MBTA Police Association Plan or the MBTA Deferred Compensation Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target allocation as of December 31, 2015 are summarized in the following tables:

MBTA Retirement Fund

	2015	
	Target Allocation	**Long Term Expected Real Rate of Return**
Equity	43%	8.46%
Fixed Income	27	1.83
Alternatives	30	7.92
Total	100%	

MBTA Police Association

	2015	
	Target Allocation	**Long Term Expected Real Rate of Return**
Equity	65%	8.46%
Fixed Income	30	1.83
Alternatives	5	7.92
Total	100%	

Discount rate. The discount rate used to measure the total pension liability as of December 31, 2015 was 8.0% for the MBTA Retirement Fund while the discount rate for the MBTA Police Association Retirement Plan was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will continue to be made in accordance with the current funding policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current MBTA Retirement Fund and MBTA Police

(Dollars in thousands)

Association Retirement Plan members. The discount rate used to measure the total pension liability for the MBTA Deferred Compensation Plan was 3.20%. Since this plan is unfunded, the assumed discount rate has been determined in accordance with the method prescribed by GASB No. 68 and is based on the S&P Municipal Bond 20 Year Grade Rate Index, whose yield to maturity was 3.20% as of December 31, 2015.

Change in the Net Pension Liability – MBTA Retirement Fund

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balances at December 31, 2014	$ 2,447,731	1,587,965	859,766
Changes for the year:			
Service cost	37,305	—	37,305
Interest	191,392	—	191,392
Difference between expected and actual experience	31,325	—	31,325
Changes in assumptions	(6,762)	—	(6,762)
Contributions - employer	—	73,374	(73,374)
Contributions - employee	—	26,511	(26,511)
Net investment Income	—	4,712	(4,712)
Benefit payments, including refund of employee contributions	(188,906)	(188,906)	—
Administrative expense	—	(5,808)	5,808
Net changes	64,354	(90,117)	154,471
Balances at December 31, 2015	$ 2,512,085	1,497,848	1,014,237

(Dollars in thousands)

Change in the Net Pension Liability – MBTA Police Association Retirement Plan

		Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2014	$	92,571	72,118	20,453
Changes for the year:				
Service Cost		1,879	-	1,879
Interest		6,490	-	6,490
Contributions - employer		-	2,512	(2,512)
Cntributions - employee		-	1,513	(1,513)
Net investment Income		-	403	(403)
Difference between expected and actual experience		(5,058)	-	(5,058)
Change in assumptions		784	-	784
Benefit payments, including refund of employee contributions		(3,542)	(3,542)	-
Administrative expense		-	(138)	138
Net changes		553	748	(195)
Balances at December 31, 2015	$	93,124	72,866	20,258

(Dollars in thousands)

Change in the Net Pension Liability – MBTA Deferred Compensation Plan

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balances at December 31, 2014	$ 81,892	—	81,892
Changes for the year:			
Service cost	1,382	—	1,382
Interest	2,615	—	2,615
Differences between expected and actual experience	4,482	—	4,482
Changes in assumptions	1,260	—	1,260
Changes in benefits	614	—	614
Contributions - employer	—	5,648	(5,648)
Benefit payments, including refund of employee contributions	(5,648)	(5,648)	—
Administrative expense	—		—
Net changes	3,896	—	3,896
Balances at December 31, 2015	$ 85,788	—	85,788

(Dollars in thousands)

Sensitivity of net pension liability to changes in the rate. The following presents the net pension liability of the Authority, calculated using the discount rates disclosed as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate as of December 31, 2015:

	2015			
	Current Rate	**1% Decrease of Current Rate**	**Current Discount Rate**	**1% Increase of Current Rate**
MBTA Retirement Fund	8.00%	$ 1,269,791	$ 1,014,237	$ 796,832
MBTA Police Assoc. Retirement Plan	7.00%	32,548	20,258	10,086
MBTA Deferred Compensation	3.20%	95,769	85,788	77,459

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016 the Authority recognized pension expense of $133,297, $2,403 and $6,642 for the MBTA Retirement Fund, the MBTA Police Association Retirement Plan and the MBTA Deferred Compensation Plan, respectively. At June 30, 2016 the Authority reported deferred outflows of resources related to these pensions from the following sources:

	MBTA Retirement Fund	MBTA Police Assoc. Retirement Plan	MBTA Deferred Compensation Plan	Total
Deferred Outflow/(Inflow)				
Net difference between projected and actual earnings on pension plan investments	$ 125,708	$ 4,213	$ —	$ 129,921
Changes in assumptions	(5,410)	672	945	(3,793)
Differences between expected and and actual experience	54,196	(4,378)	4,341	54,159
	$ 174,494	$ 507	$ 5,286	$ 180,287

(Dollars in thousands)

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	MBTA Retirement Fund	MBTA Police Assoc. Retirement Plan	MBTA Deferred Compensation Plan
Year ended June 30:			
2017	$ 48,619	$ 475	$ 1,925
2018	48,619	475	1,925
2019	48,619	475	1,436
2020	28,637	312	—
2021	—	(619)	—
2022	—	(611)	—
Totals:	$ 174,494	$ 507	$ 5,286

The Authority has also recorded a deferred outflow of $39,653 to recognize contributions to the plans made from January 1, 2016 through June 30, 2016 as follows:

MBTA Retirement Fund	$35,543
MBTA Police Association Retirement Plan	1,278
MBTA Deferred Compensation Plan	2,832
Total	$39,653

Payable to the Pension Plans

At June 30, 2016 the Authority reported a payable for $418 for the outstanding amount of contributions to pension plans required for the year ended June 30, 2016.

Restatement of Net Pension

The implementation of GASB No. 68 required a restatement of the Authority's net position as of July 1, 2015 of $682,374 as follows:

Net pension liability	$ 857,812
Deferred outflows	(37,114)
Net pension obligation	(138,324)
Total restatement - July 1, 2015	$ 682,374

(b) The MBTA Deferred Compensation Savings Plan

The Authority provides a defined contribution retirement plan for nonunion and certain grandfathered union management not participating in the MBTA Retirement Fund. Authority employee trustees administer the plan and recommend benefit amendments that require approval from the Authority's general manager. The plan requires members to contribute 5.799% of total covered payroll with the Authority contributing 8%. The plan had 299 members at June 30, 2016, and the cost of the Plan to the Authority was $846 for fiscal year 2016. Member contributions vest to plan members immediately, while contributions made by the Authority vest to plan members as follows: 50% after three years, 75% after four years, and 100% after five years of credited service. The total asset balance of $31,227 as of June 30,2016 were held by a third party administrator who allocates the assets of fully funded member account balance at the direction of individual member discretion.

(27) MBTA - Other Postemployment Benefits

In addition to providing the pension benefits described, the Authority provides OPEB for retired employees under any of the medical benefit programs then offered and available by the Authority. The benefits, benefit levels, employee contributions, and employer contributions are governed by the Authority, collective bargaining agreements, and state statute. As of the July 1, 2015 actuarial valuation, the plan has 8,108 retired and inactive participants and 6,240 active employees that meet the eligibility requirements for participation in the plan. The plan does not issue a separate financial report.

(a) Benefits Provided

The Authority provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits.

(b) Funding Policy

As part of the 2009 Transportation Reform passed by the legislature, all Massachusetts Bay Transportation Authority employees, retirees and survivors joined the GIC for health, life, and other insurance benefits. This legislation provided for different enrollment and effective dates for health coverage across the Authority. A total of 4,301 affiliated active employees and retirees enrolled in the GIC as of June 30, 2014. On July 1, 2014, a total of 6,230 of employees and retirees transferred to GIC benefit plans. The remaining employees are expected to transition on July 1, 2015.

Retirees pre- and post-65 entering into GIC health insurance coverage with a retirement date on or before July 1, 1994 contribute 10% of the cost of the health plan. Retirees who retired after July 1, 1994 and filed for retirement prior to August 10, 2009 contribute 15% of the cost of the health plan. Retirees who retired after July 1, 1994 and filed for retirement on or after August 10, 2009 but on or before October 1, 2009 with a retirement date on or before January 31, 2010 contribute 15% of the cost of the health plan. Retirees who file for retirement after October 1, 2009 will contribute 20% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

(Dollars in thousands)

(c) Annual OPEB Costs and Net OPEB Obligation

The Authority's annual OPEB expense is calculated based on the Actuarially Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The July 1, 2015 actuarial valuation established the ARC for fiscal year 2016. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortizes the unfunded actuarial liability over a period of 30 years. The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2016, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation.

		2016
ARC	$	219,090
Interest on net OPEB obligation		24,678
Amortization adjustment to ARC		(52,605)
Annual OPEB cost		191,163
Contributions made		(59,737)
Change in net OPEB obligation		131,426
Net OPEB obligation – beginning of year		845,127
Net OPEB obligation – end of year	$	976,553

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal year ended		Annual OPEB cost	Percentage of OPEB cost contributed		Net OPEB obligation
2016	$	191,163	31.2%	$	976,553
2015		193,065	25.8		845,127
2014		147,517	39.8		701,893

The Authority's net OPEB obligation as of June 30, 2016 is recorded as "Other postemployment benefits" line item.

(Dollars in thousands)

(d) *Funded Status and Funding Progress*

The funded status of the plan, based on an actuarial valuation as of July 1, 2015, is as follows:

Actuarial accrued liability ("AAL")	$	2,266,407
Actuarial value of plan assets		—
Unfunded actuarial accrued liability ("UAAL")	$	2,266,407
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	$	465,032
UAAL as a percentage of covered payroll		487.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the ARCs of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(e) *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the Authority has not advance funded its obligation. The actuarial assumptions included a 2.92% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate is 6.4% in year one to a 5.0% long-term trend rate for all healthcare benefits in year ten and thereafter. The amortization costs for the initial unfunded actuarial accrued liability (UAAL) is a level dollar closed amortization for a period of 30 years.

(f) *Transit Employees Health and Welfare Trust*

In fiscal 2015 the Authority and Local 589 (Local Union 589, Amalgamated Transit union, AFL-CIO and CLC) as a result of an arbitration award established a separate trust fund, the Transit Employee Health and Welfare Trust Fund (the "Trust Fund"), to address legislative changes impacting healthcare and other coverage (medical, dental, vision and life insurance) for Local 589 active and retired

employees (collectively, the "employees"). The Authority and the employees are required to make contributions to the Trust Fund based on the rates agreed to in the Collective Bargaining Agreement. Contributions, once received by the Trust Fund, must be used exclusively "to provide benefits to eligible participants and/or appropriate administrative or operating expenditures." The Trust allows participation of any Authority employee and retiree.

In fiscal 2016, the Authority made contributions to the Trust Fund of $9,472. The liability for the Authority's obligation for the benefits administered by this Trust Fund is recorded as part of the OPEB liability. Other than the Authority's OPEB liability and required contributions, the activities of the Trust Fund have been excluded from the accompanying financial statements. Since inception, the Authority has provided accounting and administrative services to the Trust without compensation and maintained the activities of the Trust Fund in a separate operating banking account.

(28) MBTA – Due to Commonwealth

The Authority had an obligation to the Commonwealth of $15,583 as of June 30, 2016. This amount was paid subsequent to year end.

(29) MBTA – Subsequent Events

Subsequent to year end, in July 2016, the MBTA issued $119,260 2016 Series A Assessment Bonds and $217,694 2016 Series A (Capital Appreciation Bonds). These bonds were issued to refund debt outstanding at June 30, 2016.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Required Supplementary Information

Fiscal year ended June 30, 2016

(Dollars in thousands)
(Unaudited)

SCHEDULE OF MASSDOT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (1) (2)

		2016	2015
MassDOT's proportion of the net pension liability		5.07498%	4.98100%
MassDOT's proportionate share of the net pension liability	$	577,676	369,795
MassDOT's covered-employee payroll	$	280,329	266,308
MassDOT's nonemployer contributions provided by the Commonwealth	$	2,648	8,199
MassDOT's proportionate share of the net pension liability as a percentage of its covered-employee payroll		206.07%	138.86%
Plan fiduciary net position as a percentage of the total pension liability		67.87%	76.32%

(1) Amounts presented were determined as of June 30th of the prior fiscal year.

(2) Data is being accumulated annually to present 10 years of the reported information.

See accompanying independent auditors' report.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Required Supplementary Information

Fiscal year ended June 30, 2016

(Dollars in thousands)
(Unaudited)

SCHEDULE OF MASSDOT CONTRIBUTIONS (1)

		2016	2015	2014	2013	2012
Contractually required contribution	$	24,893	29,126	21,118	17,220	22,376
Contributions in relation to the contractually required contribution		(24,893)	(29,126)	(21,118)	(17,220)	(22,376)
Contribution deficiency (excess)	$	-	-	-	-	-
MassDOT's covered-employee payroll	$	263,416	280,329	266,308	254,807	249,176
Contributions as a percentage of covered employee payroll		9.45%	10.39%	7.93%	6.76%	8.98%

		2011
Contractually required contribution	$	13,469
Contributions in relation to the contractually required contribution		(13,469)
Contribution deficiency (excess)	$	-
MassDOT's covered-employee payroll	$	255,095
Contributions as a percentage of covered employee payroll		5.28%

(1) Data is being accumulated annually to present 10 years of the reported information.

See accompanying independent auditors' report.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Massachusetts Transportation Trust Fund

Combining Balance Sheet

June 30, 2016

(Dollars in thousands)

Assets		**Metropolitan Highway System**	**Western Turnpike**	**Tobin Bridge**	**Other operations**	**Total**
Cash and short-term investments	$	-	-	-	44,295	44,295
Restricted cash and investments		515,878	197,689	88,980	22,589	825,136
Receivables, net of allowance for uncollectibles:						
Due from federal government		-	-	-	5,667	5,667
Other		29,046	8,632	2,433	3,190	43,301
Due from other funds		-	-	-	3,098	3,098
Other assets		1,641	573	92	348	2,654
Total assets	$	546,565	206,894	91,505	79,187	924,151
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities:						
Accounts payable and accrued expenditures	$	24,371	14,445	2,084	12,524	53,424
Unearned revenue		68,810	2,303	-	714	71,827
Due to other fund		-	723	-	-	723
Total liabilities		93,181	17,471	2,084	13,238	125,974
Deferred Inflows of Resources:						
Unavailable Revenue		10,027	6,955	61	-	17,043
Fund balances:						
Nonspendable		1,641	573	92	349	2,655
Restricted		441,716	181,895	89,268	22,645	735,524
Assigned		-	-	-	11,360	11,360
Unassigned		-	-	-	31,595	31,595
Total fund balances		443,357	182,468	89,360	65,949	781,134
Total liabilities, deferred inflows of resources and fund balances	$	546,565	206,894	91,505	79,187	924,151

See accompanying independent auditors' report.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Massachusetts Transportation Trust Fund

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Fiscal year ended June 30, 2016

(Dollars in thousands)

	Metropolitan Highway System	Western Turnpike	Tobin Bridge	Other operations	Total MTTF
Revenues					
Toll revenue:					
Pledged as security for revenue bonds	$ 214,303	146,715	-	-	361,018
Unpledged	-	-	34,318	-	34,318
Commonwealth transportation fund:					
Operations	-	-	-	439,540	439,540
Metropolitan highway system bonds	100,000	-	-	-	100,000
Central artery operations and maintenance	25,000	-	-	-	25,000
Commonwealth grants and contract assistance	-	-	-	90	90
Federal grants and reimbursements:					
Direct	49	-	-	35,303	35,352
Rental/lease income	10,363	25,785	-	8,632	44,780
Investment income	3,015	826	337	389	4,567
Departmental and other	8,767	8,616	1	36,936	54,320
Total revenues	361,497	181,942	34,656	520,890	1,098,985
Expenditures:					
Current:					
Highway **	221,036	160,819	16,658	288,207	686,720
Office of the Secretary	29,423	9,746	636	79,513	119,318
Registry of motor vehicles	-	-	-	69,596	69,596
Rail and Transit	-	-	-	86,000	86,000
Aeronautics	-	-	-	1,505	1,505
Debt service:					
Principal	40,741	17,280	-	-	58,021
Interest	111,179	913	-	-	112,092
Total expenditures	402,379	188,758	17,294	524,821	1,133,252
Excess (deficiency) of revenues over expenditures	(40,882)	(6,816)	17,362	(3,931)	(34,267)
Other financing sources (uses):					
Transfers in	-	-	-	41,024	41,024
Transfers out	-	-	-	-	-
Proceeds from sale of land	-	-	-	8,041	8,041
Total other financing sources (uses)	-	-	-	49,065	49,065
Net change in fund balances	(40,882)	(6,816)	17,362	45,134	14,798
Fund balances at beginning of year	484,239	189,284	71,998	20,815	766,336
Fund balances at end of year	$ 443,357	182,468	89,360	65,949	781,134

See accompanying independent auditors' report.

** Pay go Maintenance expenditures of $216 million is included in total line ($ 136 million in MHS & $80 million in WT)